

# GROWTH & GOVERNANCE in Asia



Asia-Pacific Center for Security Studies

Edited by Yoichiro Sato

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Asia-Pacific Center for Security Studies

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## CHAPTER 1

### GROWTH AND GOVERNANCE IN ASIA: Framework of Analysis

YOICHIRO SATO

The post-Cold War period has been a challenging time in Asia in terms of governance. The reduction in superpower rivalries has not always brought about peaceful and lasting settlements to various internal conflicts. Furthermore, the rapid advance of economic globalization has drastically altered the political economic landscapes of most Asian countries, often clashing friction with the status quo. The crisis has proven that despite various nation-building projects undertaken by Asian states, state legitimacy in Asia to a large extent depended on continuing economic growth. Transformation of traditional communal societies and their consolidation into a larger modern civil society, a painful process even during periods of economic growth, has been complicated by ethnic conflicts and religious rivalries in Southeast, South, and Central Asia. Redistribution of the fruits of rapid economic growth in the past moderated the destabilizing effects of these internal rivalries in some Southeast Asian countries. However, lack of transparency in economic governance was at least partially to blame for the 1997–1998 economic crisis, which severely hit these countries. Even worse, the shaky recovery of Asian countries from the economic crisis is once again threatened by the slowing of the global economy in the 2000–2003 period. Can Asia return to a positive spiral of economic growth, development of civil society toward a shared nation-state, and democratization? If so, how?

Meanwhile, democracy as a principle of governance has increasingly been accepted by Asian states and their leaders, either reluctantly in return for IMF loans, positively through internal transformation (changes in the elite consciousness, and/or growing demands from the middle class and “civil society” organizations), or as a result of external intervention due to catastrophic events. This general trend toward a larger number of democratic countries has not been limited to Asia. Both in Latin America and Eastern Europe, there has been a new wave of democratization and in some cases re-democratization since the 1990s. At the same time, democracy as a universal value has often been discussed without examining the great diversities that exist among world democracies, including the differing degrees of growth of civil society. A more detailed examination reveals that the number of “liberal democracies” (advanced or

consolidated democracies that address vigorous participation and egalitarian social and economic rights and liberties), as opposed to mere “electoral democracies,” has not changed much during the third wave of democratization.<sup>1</sup> Where are the Asian states situated on the progression of democratic transition? What unique challenges does each Asian country face? What are the realistic scenarios of democratic transformation for Asian countries, given the heterogeneous conditions (ethnically, religiously, and economically) that prevail in many Asian countries?

This volume will examine the issues of economic and social governance in Asia, the impact of internal and external political-economic forces upon the governing capacity of Asian governments, and possible paths for improved governance at a time of rapid economic globalization. Included will be discussions on economic growth and its management, nation-building strategies, the growth of civil society, democratization and their linkages. The goal of this volume is to advance theoretically informed discussions on growth and governance in the contemporary Asian contexts from societal, political, and economic points of views and to explore preventive aspects of the comprehensive security of the Asian countries.

### **Economic Governance in Asia**

The spectacular growth of the East Asian economies during the first half of the 1990s resulted in a proliferation of literature on this subject. The successes of the Asian “tigers” or “dragons” (the newly industrializing economies of Taiwan, Hong Kong, Singapore, and Korea) were explained mainly from three perspectives: macroeconomics—focusing on such attributes as high saving rates, sound fiscal and monetary policy, stable and favorable foreign exchange rates, etc.; industrial policy—focusing on government-business cooperation in research and development, capital formation, trade protection and promotion, and labor suppression, etc.; and culture—focusing on Confucian work ethics, etc. As growth spread into Southeast Asian “mini-dragons” (like Thailand, Malaysia, and Indonesia, where Confucianism was not the dominant cultural trait), cultural explanations somewhat lost their eminence.

The Asian Economic Crisis of 1997–1998 stirred the debate between the macroeconomists and industrial policy scholars. Inquiries into the causes of the crisis reflected the debate. Macroeconomists emphasized cumulative misallocation of capital under misguided and corrupt government interventions and the resulting decline of overall economic efficiency by early 1997. Industrial policy scholars were placed on the defensive. Meanwhile, some of the macroeconomic attributes for the “success” were re-examined. The pegged exchange rates, which were thought to have provided a stable trade and investment environment, were instead blamed for failing to reverse declining export competitiveness and inviting massive currency speculation.

### **Nation-Building in Asia**

Many Asian countries are ethnically heterogeneous (with some Northeast Asian exceptions like Japan and Korea). Heterogeneity has resulted from both colonial and

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<sup>1</sup> Georg Sorensen, *Democracy and Democratization: process and prospects in a changing world*, 2<sup>nd</sup> edition (Boulder, CO: Westview Press, 1998), p. 129. He counts 76 liberal democracies in 1991, and 79 in 1996.



post-colonial government policies. For example, introduction of Indian and Chinese immigrants to Malaya to a large extent owed to British colonial policy, whereas inter-island migration of Javanese was encouraged by the post-colonial Indonesian government. In the process of complex and changing social stratification in these countries, various types of local and national social contracts emerged, and economic growth became the precondition to underwrite these social contracts. The sudden withdrawal of such social contracts as a result of the Asian economic crisis exposed the latent fragility of many Asian societies and polities, although to differing degrees. Large-scale violence erupted in Indonesia, and Korea experienced a sharp rise in labor disputes. Immediately following the crisis, Thailand went through a change of leadership, and though to a lesser extent, a Filipino leadership change was also attributable to the crisis. Disagreement over crisis remedies in Malaysia altered the course of the leadership succession there. Some of the changes may be positive ones in the long run, addressing deep-rooted social divisions that have been swept under the rug rather than confronted. Over the short term, however, such changes can be disruptive and destabilizing, with regional implications. The recent massive deportation of illegal Indonesian workers from Malaysia as a result of economic problems, for example, put additional pressure on Indonesia's recovery and soured bilateral relations.

### **Democratization in Asia**

The Asian economic crisis also highlighted the issue of democratic governance in Asia. While in the past economic growth provided legitimacy to many non-democratic regimes in Asia, it also undermined the very foundation of such regimes by diversifying the economy, pluralizing society, and broadening and politically empowering the urban middle class. Diverse patterns of democratic transition have prevailed in Asia, from relatively smooth evolution prior to the economic crisis in the Philippines, Taiwan, Korea and Thailand, to rocky transition amidst economic turmoil in Indonesia, to controlled and limited change in Malaysia, Singapore, and China.

In fact, Asia's history is full of examples in which political change did not follow a linear progression from authoritarianism to democracy. After Japanese colonial rule, South Korea experimented with democracy under American tutelage, but reverted back to authoritarianism before being re-democratized in the 1990s. The Philippines inherited democratic culture and institutions from American colonial rule, yet they did not fully take root in the early years, allowing Marcos to rule under martial law. Both Malaysia and Indonesia experienced a gradual erosion of Western-modeled constitutional rule since their independence.

The recent controversy over Western criticism of Asian human rights practices and some prominent Asian leaders illustrated the gap in conceptions of human rights. Some Asian leaders emphasized paternalistic disciplining of the society by the state, citing their social diversity, economically "developing" status, local traditions, cultures, and in some cases secessionist threats. In the aftermath of the Asian economic crisis, international financial rescue packages have been tied to democratization and observation of human rights in the case of Indonesia, whereas Malaysia declined such loans.

Comparative studies of democratic transition have paid increasing attention to the development of “civil society,” which underwrites the success of democratic governance. Relatively equal income distribution, social mobility, tolerance of diversity, respect for the rule of law, and informed political participation are among the values that constitute a mature civil society. Without doubting the supremacy of democracy, many scholars have however pointed out the importance of simultaneous economic, social, and political development.<sup>2</sup>

### **Importance for Security Planning**

The intellectual exercise this book is aiming at is an important one for security planners. The Cold War may have ended, but a new definition of security and a new strategy to achieve such security have not taken apparent shape. While the possibility of large-scale state-to-state military conflict has diminished, internal conflicts—ethnic, religious, or otherwise—have persisted and in some cases worsened into the 1990s. While multi-lateralism in Europe has evolved beyond the military cooperation of the North Atlantic Treaty Organization (NATO) into advanced economic integration and some political cooperation based on shared norms, the Asia-Pacific lags behind Europe in comprehensive multilateral cooperation in military, economic, and political spheres. For sovereign states, multilateral cooperation normally requires some sacrifices of parochial domestic interests for the sake of greater national interests that are consistent with the collective interests of multilateral cooperation. Lack of such cooperation in Asia indicates two things: divergence of national interests and lack of domestic consensus. Although geopolitics can partly account for divergence of national interests, it has little to say about domestic consensus. The problem is that most post-Cold War conflicts are domestic. This fact remains true even in the aftermath of the transnational terrorist attacks on the United States on 11 September 2001.

The current debate about globalization often reflects a lack of attention to diverse interests among countries and their domestic groups. Questions like “Is globalization good for third world development?” and dogmatic answers from left and right are moot as they completely ignore such diversities. Indeed, the very same moot question has been raised about colonization. Each colony had winners and losers among the indigenous population. It is more productive to discuss who are the winners and who are the losers of globalization within each Asian country, and the security implications.

Admiral Dennis C. Blair, during his tenure as the Commander in Chief of the U.S. Pacific Command, commented:

...genuine security within the region will come only when nations share dependable expectations of peaceful change, and act in concert to address common challenges.

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<sup>2</sup> This new focus on civil society adds to the earlier Cold War version of modernization theories, which asserted the co-development of capitalist economy and democratic polity. See Walt W. Rostow, *Politics and the Stages of Growth*, Cambridge University Press, 1971.

The armed forces of many nations in the region deal with internal insurgencies. Here, I see a trend of growing awareness that force alone is insufficient to quell insurgency ... without political accommodation and local economic development. There is an increasing realization that heavy-handed military tactics against insurgencies not only create international censure, but are counterproductive—they build support for insurgents, and undermine trust in the efficiency and skill of armed forces.<sup>3</sup>

His statement clearly recognizes the increasingly complex interrelationships of the military, economic, political, and diplomatic policies relevant to regional security issues in the globalizing world. It is extremely important that such a view is shared not only within the military organizations of the United States and Asia-Pacific countries, but also by the diplomatic circle and economic policy planners, considering that there is a close linkage between economy and political stability and that most conflicts today are domestic.

Globalization has led to a view that economic policy is becoming (and should become) more uniform across national borders. While this may be correct as an observation of a general long-term trend and as an economic theory solely in terms of promoting economic efficiency, it says little about why some differences remain and how soon should economic policies of different countries converge: the kinds of questions political-economists address. Scholarly research has demonstrated that economic liberalization, growth, domestic distribution, and democratization do not necessarily go hand-in-hand, and that local contexts often greatly affect the result. However, due to smokestack visions and lack of broad expertise (typical of any bureaucracy), policy coordination between diplomatic, military, and economic departments has been lacking, especially between the last two. Increased dialogues between military, country (area) experts, and general economic planners are much in need today. Governments of the developed countries directly (through their foreign economic policies) and indirectly (through their sovereign control over multinational corporations) promote or hinder economic liberalization. How their policies impact on particular Asian countries must be carefully examined, from the perspective of maintaining political stability and promoting democratic governance there. In practice, internal divisions and lack of communication often result in incoherent policies and simultaneous pursuit of conflicting policy objectives. This volume aims at integrating political, economic, and socio-cultural perspectives into one coherent policy framework. In the following sections, authors will look into the linkage between economic, social, and political stability in Asia in the age of economic globalization. It is hoped that the discussions will help diplomatic and security practitioners to develop policy input aimed at minimizing the unwanted creation of new conflicts and the fueling of existing conflicts in the region.

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<sup>3</sup> Admiral Dennis C. Blair, Remarks at the Senior Policy Symposium, East-West Center, Honolulu, Hawaii, August 6, 2001.

### **Organization of the Book**

The first section, titled “Political-Economic Governance”, will attempt to identify important security issues originating from or exacerbated by weakness in the governing capacity of each state. It will also explore the relative impact of globalization on the domestic political economies of Asian countries. Chapters in this section collectively will answer the following questions:

- What are the important security issues for Asian countries?
- To what extent has the governing capacity diminished in Asian countries?
- To what extent are external economic forces responsible for diminished governing capacity?
- To what extent has globalization impacted on the state’s ability to manage its economy?
- In what way has globalization impacted on the state’s ability to manage its economy?
- Is domestic politics more important than globalization as a cause of economic insecurity?

Richard Cronin (Chapter 2) will review economic growth and governance issues in Northeast and Southeast Asia. John Ravenhill (Chapter 3) will review foreign investment trends in East Asia. Thitinan Pongsudhirak (Chapter 4) will look at democratic governance of macroeconomic policy in Thailand. Yun-han Chu and Pei-shan Lee (Chapter 5) will offer a post-Crisis developmentalist perspective focusing on Taiwan. Paul Buchanan and Kate Nicholls (Chapter 6) will compare democratic consolidation in Korea and Taiwan by focusing on their labor politics. Larry Greenwood (Chapter 7) will address the role of government in promoting growth in a globalizing environment from a neo-classical liberalist perspective. Fred Deyo (Chapter 8) will discuss labor responses to market-oriented reforms in Thailand and outlines alternative scenarios. Zawawi Ibrahim (Chapter 9) will discuss changes in Malaysia’s ethnic political economy in the globalizing era.

In the second section titled “Social Stability and Democratization in a Global Era,” authors will examine possible links between globalization and the Asian states’ capacity to manage their diverse societies and identify the unique challenges of democratization by asking:

- Have Asian states succeeded in managing ethnic, religious, and socio-economic diversities in their societies and building a common national identity?
- Has globalization impacted on the states’ ability to manage heterogeneous societies?
- Why has successful democratization occurred and survived in some countries and not in others?

- What elements of democracy and civil society have helped (or can help) economic growth, social stability, and nation-building?

Suchit Bunbongkarn (Chapter 10) will provide an overview of democratic consolidation in Asia. Michael Haas (Chapter 11) will broadly review economic growth, internal security, and democratization in Southeast Asian countries to offer a view on their inter-linkage. Vladimir Petrovsky (Chapter 12) will discuss reconciliation of overall economic growth and human development in eight former Soviet republics in Central Asia. Robert Wirsing (Chapter 13) will look at the role of Islam in Pakistan's foreign relations. Donald Weatherbee (Chapter 14) will present a focused look on Indonesia's rocky transition. Alasdair Bowie (Chapter 15) will look at changes and continuities in Malaysia's party system. Rommel Banlaoi (Chapter 16) and David Wurfel (Chapter 17) will discuss the fragmented civil society in the Philippines and its entrapped weak governance. Yin-hong Shi (Chapter 18) will discuss underdevelopment of civil society in China.





## CHAPTER 2

### CHALLENGES OF GOVERNANCE IN ASIA: Significance for Regional Security and Stability

RICHARD P. CRONIN

#### **Overview: Rethinking Assumptions About the Sources of Regional Security and Stability in the Asia-Pacific Region**

The end of the Cold War at the close of the 1980s and the near simultaneous extension of financial sector liberalization to the more advanced Asian developing countries have together given us reason to rethink the bases of security and stability in Asia. Both of these developments have had major impacts on regional security and stability, but in very different ways. The impact of the end of the Cold War can be viewed as creating a major qualitative change in regional security dynamics, but one that still could be addressed by traditional responses—i.e., alliance relationships and forward deployed military forces. Financial sector liberation and other aspects of what is loosely termed economic liberalization, on the other hand, have created a wholly different dynamic in which regional stability and security have been adversely affected by weaknesses and outright failures in governance. These failures were most apparent in regard to the effects of the politically destabilizing effects Asian financial crisis of 1997, and continue to the present in less severe form.

Weaknesses of governance, especially in Indonesia and Thailand, even have impeded the regional response to the September 11, 2001, terrorist attacks, and hence represent an additional threat to stability and security. The Philippines' long-standing problems with Muslim separatist movements, some with links to pan-Islamic extremists and terrorist groups, can be laid at the feet of poor governance. Likewise, because political dissidence in Suharto's Indonesia was most safely pursued under the banner of Islam, the Islamic parties have emerged as more powerful forces than might otherwise have been the case. One consequence is that the elected Megawati government feels inhibited in its response to American requests for stronger action against extremists with ties to Al Qaida.

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### **“Old” and “New” Threats to Regional Stability and Security in the Era Following the End of the Cold War**

The collapse of the Soviet Union had very different effects in Asia than in Europe. Although these effects are not the primary focus of this paper, the synergistic way in which they interact with the new issues of governance warrants a brief description of the main consequences for traditional state-to-state relations. It is now widely acknowledged that in Asia the end of the Cold War tended to increase some sources of regional tension, in sharp contrast to the rapid decrease in East-West tensions in Europe.

With the relaxation of the rigid system of alliances and alignments created by superpower rivalry, a number of potential sources of conflict, which once were contained by the larger interests of U.S.-Soviet strategic stability, now can grow and intensify. To date, potential state-to-state conflicts in most of the Asian region have been moderated by regional organizations such as the Association of Southeast Asian Nations (ASEAN), the ASEAN Regional Forum (ARF), regional economic interdependence, and other motivations for seeking engagement rather than conflict. In some cases, however, these influences have not been strong enough to prevent potentially destabilizing events.

The collapse of bipolarity has had several negative consequences for regional stability and security. For instance, greater tension has been introduced into the U.S.-China-Taiwan relationship by the fact that neither Washington nor Beijing needs each other as strategic counterweights to the U.S.S.R. Likewise, the Korean Peninsula has become more unstable as a consequence of the loss of economic assistance and a restraining hand from Moscow, Pyongyang's main Cold War era patron. For a number of reasons, China has been both unwilling and unable to substitute for the former role of the U.S.S.R.

Some other potential sources of conflict currently are kept in check simply because of the interest calculations of the respective countries—not because of the influence of Washington, Moscow, Beijing, or Tokyo. A number of potential ethnic/territorial conflicts in Southeast Asia come to mind in countries—Indonesia most notably—which currently are experiencing a decline in control over restive regions.

Less well recognized as a threat to regional stability is one particular aspect of the triumph of western-style capitalism—the revolution in international financial transactions. Beginning with the Plaza Accord of September 1985 and spurred by the congressionally-inspired Omnibus Trade and Competitiveness Act of 1988, the United States undertook the aggressive promotion of financial sector and capital account liberalization in Asia. The campaign by the Reagan and George H. W. Bush administrations also enjoyed support from the IMF and World Bank thanks to the major U.S. influence in those bodies dating from the end of World War II, which has been styled the “Washington Consensus.” The U.S.-led campaign for exchange and financial sector liberalization had several interrelated objectives. One was to compensate for a huge merchandise trade deficit by promoting the interests of a sector in which the United States, with the most developed capital markets and financial services industries, enjoyed a strong competitive advantage. Since, all other



things being equal, capital flows tend to cause appreciation in the currency of the receiving economy, the goals were ingeniously mutually reinforcing.

*Traditional Security with a Twist: Governance and External Threats to Security and Stability in the Asia-Pacific Region*

Although the issue of governance is often seen as being most relevant to “new” concerns about security and stability arising out of the globalization phenomenon, some of the more traditional aspects of the post-Cold War security environment in East Asia and the Pacific also are affected by weaknesses in the governing capacity of states. This can be best appreciated noting some of the main changes in the structure of the post-Cold War power balance in East Asia and then considering how weak governance can work to increase instability and raise the risk of state-to-state conflict. This is one reason why the Cold War era military posture of U.S. forces in East Asia and the Pacific, and the U.S. alliance systems, largely remained relevant following the collapse of the Soviet Union.

*Shift in the Post-Cold War Power Balance in East Asia*

The end of the Cold War set off a major shift in the power balance in East Asia, but one that was not immediately apparent. As the Soviet Union broke into Russia and newly independent republics in Europe and Central Asia, U.S. policymakers and regional security analysts actively debated whether the post-Cold War order in Asia would be more or less dangerous to peace and stability than the era of U.S.-Soviet bipolarity. Many analysts saw the East Asia region as less likely to be the scene of conflict, now that the risk of conflict with Russia had all but evaporated.<sup>1</sup> In late 1991, even the always volatile Korean Peninsula appeared to be stabilizing, when North and South Korea signed declarations on denuclearization of the peninsula and North-South dialogue. Others urged the United States to maintain a strong military presence in the region and expand its economic role, despite the absence of new security concerns on a par with the threat from the former USSR.

Japan, at the beginning of the 1990s, was still in the flush of its rising power status despite indications that the economic “bubble” of the late 1980s had broken. Few at the time foresaw the onset of what would prove to be a decade-long period of little or no economic growth, or that the ruling Liberal Democratic Party (LDP) would split and that the public would lose confidence in their institutions of governance. Analysts tended to see the fall of land and stock prices to forty percent of their late 1980s value as a temporary adjustment. Observers focused on Japan’s growing offshore manufacturing empire in Southeast Asia and speculated about the possibility of the emergence of a “Yen bloc” that would challenge the United States and Europe.

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<sup>1</sup> In early 1991 one of the most distinguished American academic experts on international relations, albeit one with a Euro-centric focus, barely mentioned Asia in speculating on the post-Cold War structure of power relations in an article in *Foreign Affairs*. In the very same issue Retired Admiral and former Chairman of the Joint Chiefs of Staff, William J. Crowe, Jr., and Alan D. Romberg, directly addressed the future security situation in Asia, but still deemed the military forces of the Soviet Union as the main threat, and described China as only a potential threat to the U.S. and its allies in the comparatively distant future, with whom relations needed to be “fine tuned.” John Lewis Gaddis, “Toward the Post-Cold War World,” *Foreign Affairs*, Vol. 70, No. 2 (Spring 1991), 100-122, and William J. Crowe, Jr., and Alan D. Romberg, “Rethinking Security in the Pacific,” *ibid.*, 123-140.

Many voices in Japan, and some in Southeast Asia, called on Japan to move beyond checkbook diplomacy and play a larger international political role and even a regional military role in keeping with its economic strength.

The Japanese government and some other U.S. allies and friends in Asia, meanwhile, worried more about the continuing “decline” of American regional influence and prestige. Even the demonstration of American military prowess in the 1990 war against Iraq created concern about future U.S. staying power, since Operation Desert Storm had required the redeployment of significant military forces from Japan, the western Pacific and Southeast Asia, and also a cash subvention from Japan of some \$13 billion.

#### *Effect of Weak Governance on “Old” Security Issues*

Governance issues in several Asian countries coinciding with, or arising out of, the end of the Cold War have affected “old” state-to-state security relations in a number of ways. One effect has been to cause former Soviet client states, which were not really economically viable, to seek other ways to acquire hard currency to pay for critical imports. In the case of Vietnam, the result was positive. Hanoi intensified its pursuit of economic modernization and in the space of a decade achieved membership in ASEAN. Vietnam concluded a bilateral trade agreement (BTA) with the United States, its old enemy, which Congress ratified on October 3, 2001, and which entered into force in December 2001. Vietnam also has obtained temporary normal trade relations (NTR) status with the United States in exchange for agreeing to introduce a package of market liberalization measures in coming years, following a time-table yet to be negotiated.<sup>2</sup>

North Korea’s response to the end of the Cold War and the loss of support from the former Soviet Union, on the other hand, has been destabilizing. Pyongyang sought to compensate for its failure of governance and loss of economic viability by seeking to develop nuclear weapons, and by developing and exporting missiles and other weapons of mass destruction.

Likewise, because of China’s own problems of governance, the collapse of Communism in the Soviet Union also had a negative demonstration effect on the Chinese leadership, and led to the May 1989 Tiananmen Square massacre. It is not coincidental that the ranks of student demonstrators calling for reform and democracy swelled to 50,000-100,000 during the May 15-18 Summit visit of Soviet leader Mikhail Gorbachev, who had decided—of necessity in view of a collapsing Soviet economy—that political opening had to be a precursor to reform, rather than the other way around. This course was anathema to the conservative hard-liners in the Politburo of the Chinese Communist Party (CCP), who had the upper hand in a power struggle that had broken out in anticipation of the retirement of Deng Xiaoping.<sup>3</sup>

China’s decision to crack down on the democracy movement while concentrating on economic liberalization had significant ramifications for regional stability. The

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<sup>2</sup> Office of the U.S. Trade Representative (USTR) press release, 10 December 2001.

western and Japanese reaction to the Tiananmen massacre poisoned Beijing's external relations for several years, and especially hardened U.S.-China relations. Over time, pragmatism prevailed in both countries regarding the need for engagement, and especially for integrating China into the global economy, but the fact remains that from Tiananmen onward China acquired the status of a successor to the USSR as the main potential enemy of the United States.

As an alternative to political liberalization, China responded to the erosion of the Communist Party's legitimacy with a two-pronged approach. The first, and thus far most important to stability in Asia, was to accelerate economic liberalization. This was symbolized by Deng Xiaoping's celebrated tour of southern China in early 1992, during which he exhorted the Chinese people to "get rich" under the mantle of "market socialism." The other tack, which has more immediate implications for regional stability and security, was a decision by the Chinese leadership and conservatives in the military to stoke the fires of nationalism in a bid to shore up support for the established political order. The latter approach was symbolized by the adoption by China's National People's Congress later in the same year of the Law on the Territorial Sea and the Contiguous Zones, which not only asserted China's claims to most of the islands in the South China Sea, including the Spratlys, but also asserted sovereignty over the Senkakus, occupied by Japan, in addition to Taiwan and the nearby Pescadores (Quemoy and Matsu), which are under Taipei's control.

By the middle of the 1990s, a clearer image of the emerging East Asian power balance began to appear, with China at the center. Boosted by its ability to attract a major share of total global foreign direct investment and high domestic savings rates, the Chinese economy surged ahead with growth rates estimated in the 7–9 percent range, while its main regional rival, Japan, languished in economic stagnation and internal political disarray. By 1998 China's total Gross Domestic Product (GDP), as measured in terms of purchasing power parity, totaled \$4.4 billion—nearly half that of Japan's. Symbolic of its rising status as an export superpower, China's trade surplus with the United States surged ahead of Japan's in 2000 (\$83.8 billion for China vs. \$81.3 billion for Japan).

China carried out a smooth power transition following the death of Deng Xiaoping, and enhanced its regional status by not moving to devalue its currency following the onset of the Asian financial crisis that began in Thailand in July 1997. Beijing's forthcoming role in the financial crisis contrasted with other moves by China that unsettled its neighbors, and underscored its ability to become a force for regional stability or a source of instability and threat. These latter included, prominently, the construction in 1995 of logistical facilities on Mischief Reef in the Spratly Islands, claimed by the Philippines, and efforts to intimidate Taiwan in late 1995 and early 1996 with provocative military exercises and launches of ballistic missiles that landed in the sea not far from Taiwan's main ports of Taipei, in the north, and Kaohsiung, in the South. In both instances, China's Asian neighbors were particularly disturbed by Beijing tendency to flout internationally accepted standards. In the case of the Spratlys and other South China Sea territories, China has asserted historical claims that are at

variance with international law.<sup>4</sup> In the case of its efforts to intimidate Taiwan, China has asserted that the confrontation was an “internal matter,” and hence of no concern to outsiders.

*U.S. Reaction to the Changing Regional Power Balance*

By and large, the United States has reacted to the changing regional power balance with a characteristically multi-faceted approach. The Administration of George H. W. Bush appears never to have doubted that the United States should remain committed to its alliance system in Asia and the maintenance of a forward military presence. For a time the Administration showed evidence of lacking a new strategic concept, but the Tiananmen Square incident of May 1989 and the continuing risk of conflict on the Korean Peninsula generally served to stave off pressures in Congress to reduce the U.S. regional military role.

The Clinton administration adopted a number of responses to the changing power balance in East Asia. The first, following much in the same vein as the Reagan and Bush administrations, campaign rhetoric notwithstanding, was to seek to engage with China with a view to promoting changes in its behavior in regard to human rights, trade and economic policy, and China’s regional political and military role. At the same time, beginning with the so-called Nye Initiative of 1995, named after the then Assistant Secretary of Defense for International Security Affairs, the administration sought to highlight the intention of the United States to maintain a regional military presence of about 100,000 troops and related ships and combat aircraft, mainly in South Korea and Japan.

In 1997, the United States and Japan negotiated a new set of defense cooperation guidelines, which paid dividends in unexpected fashion following the September 11, 2001, terrorist attacks in New York and Washington. The guidelines and subsequent Japanese legislation strengthened Japan’s ability to provide non-combat, logistical support to U.S. forces in the event of a regional contingency or conflict, including the unprecedented October 2001 dispatch of a naval flotilla and C-130 transports to the Indian Ocean region.

Both the George W. H. Bush and Clinton administrations were open to multilateralism that appeared to benefit U.S. interests, but the first Bush administration showed suspicion of any initiatives that appeared to dilute U.S. freedom of action and remained wedded to the “hub and spoke” relationships with the Asia-Pacific—Japan, Australia, Thailand, and (less importantly after the 1992 withdrawal from Subic Bay and Clark Air Base) the Philippines. The Bush administration would have preferred to retain bases in the Philippines but Manila’s demands and prickliness made a withdrawal look like the best course—and a required one after the Philippines Senate voted in 1992 not to renew the basing agreement.

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<sup>4</sup> “Divide and Rule: Beijing Scores Points on the South China Sea,” *Far Eastern Economic Review*, 11 August 1994, 18. In direct and “Track Two” meetings with countries of the Association of Southeast Asian Nations, China has mentioned vague formulas for resolving the issues peacefully and sharing the area’s resources, but has refused to make any firm commitments. China refused to agree to a South China Sea code of conduct during an informal heads of state/government between ASEAN and China in Manila in November 1999.

President Bush and Secretary of State James Baker reacted suspiciously to the promotion of the Asia-Pacific Economic Cooperation (APEC) forum by Australia and Japan, sensing the creation of a possible coalition against U.S. trade and economic pressures. The Clinton Administration more clearly embraced the process, starting with the President's decision to organize the first APEC leaders summit at the 1993 meeting on Blake Island, near Seattle. The Administration exercised vigorous influence in the runup to the 1994 meeting in Bogor, Indonesia, which adopted the goal of regional free trade by 2010 in the case of the developed economies and 2020 in the case of the less developed Asian economies. By the mid-1980s it was becoming apparent that the response to U.S. initiatives remained more rhetorical than real, as meetings in Osaka, Manila, Kuala Lumpur, and Vancouver between 1995 and 1998 saw hesitation to push ahead with concrete measures. The Administration's most important success in its efforts to move APEC forward took the form of an agreement by APEC countries to support early liberalization of the information technology sector in the Uruguay Round that concluded in the telecommunications sector—an area of Asian strength.

Relations with ASEAN have been uniformly strong and positive, but owing to some resistance in the military services, especially the U.S. Navy, the United States has remained of two minds about the ARF. So long as ASEAN was using the ARF to show solidarity against China's incursions in the Spratlys, for instance, the United States applauded. Washington also generally supported initiatives for greater transparency of military programs, and expanded military-to-military relations, but was less enthusiastic about confidence-building proposals by China that might have required the U.S. Navy to announce beforehand its transit of countries' Exclusive Economic Zones (EEZs.)

#### **“New” Issues of Governance As Factors in Asian Stability and Security**

Although economic integration and related phenomena that are associated with globalization generally have contributed to regional stability and security, problems of poor governance in a number of Asian countries have undercut these benefits and even contributed to new sources of threat. At a minimum, rapid globalization requires internal socioeconomic adjustments that are inherently destabilizing. Hence, good governance is a critical requirement for preventing the benefits of globalization from being overshadowed by the inevitable dislocations.

#### *Impact of the Asian Financial Crisis of 1997-1998*

The nexus between issues of economic performance, governance, and regional security and stability became more prominent following the onset of the Asian financial crisis in July 1997. Among other effects, the collapse of the Thai baht:

- brought into question earlier predictions of a coming Asia-Pacific century with expanding-sum benefits for all,
- unleashed significant political changes with cross-cutting implications for stability,
- largely eliminated “economic performance” as a source of legitimacy for Southeast Asian governments.

The spreading crisis, which eventually grew to global proportions, also tarnished the reputation of the IMF, raised questions about U.S. leadership, and showed the limits of ASEAN and APEC.

The financial crisis and related economic contraction imposed a harsh social cost on the most affected economies. The impact varied from country-to-country, but in general it hurt the urban poor and middle classes more than the residents of rural areas. In the most developed crisis country, South Korea, and in the cities of the developing countries of Southeast Asia, especially Bangkok and Jakarta, the distress was most palpable. Because the value of many tropical cash crops is determined by world prices, the currency devaluations tended to raise the incomes of farmers relative to their urban counterparts. Many urban workers in Southeast Asia returned at least temporarily to the villages from which they had once come looking for a better life, an option that South Koreans workers generally did not have due to their country's more advanced state of development. Conversely, because of South Korea's significantly greater wealth and resources, its government was able comparatively quickly to install a social safety net of unemployment benefits and other relief measures, while those of Thailand and Indonesia lacked both the means and the necessary administrative infrastructure to provide much income or consumption support.

Although it now appears that incomes in the crisis countries did not fall as much as was initially estimated, the social impact was serious in every affected country. The World Bank calculated in mid-1999 that in South Korea the incidence of urban poverty more than doubled in the months after the crash—from 8.6 percent in 1997 to 19.2 percent in 1998—and that the overall urban standard of living declined by 21.6 percent. The Bank estimated that in Indonesia, the percentage of the population living below the nationally established poverty line nearly doubled—from 11.0 percent before the crisis to 19.9 percent afterward—and that the overall standard of living fell by 24.4 percent, or almost one-fourth. Rural areas in West Java and some other parts of Indonesia were also affected during 1997 and early 1998 by a severe El Nino-influenced drought, which added to the general economic distress and created widespread hunger. In Thailand, by contrast, the crash appears to have mainly affected the urban middle classes, who are still a relatively small proportion of the total population, with the effect that the overall incidence of nationally defined poverty increased only moderately—from 11.0 to 12.9 percent between 1997 and 1998—while overall incomes dropped by 13.6 percent.<sup>5</sup>

Because of certain characteristics of Asian social systems and labor markets, unemployment levels do not reveal the true depth of the crisis. In a 1999 year-end assessment and forecast the World Bank found that because of the “flexibility” of Southeast Asian labor markets, i.e., willingness to work for subsistence wages, if necessary, incomes fell further than actual employment. In Indonesia, by this account, employment actually rose slightly after the crisis while wages fell by 42 percent.<sup>6</sup>

Currently, the unemployment picture in East Asia is very mixed, with Indonesia by one account now showing a record high of 50 million in a workforce of less than 200

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<sup>5</sup> The World Bank, News Release 99/2214/S, 2 June 1999 (<http://www.worldbank.org/html/extdr/extme/2214.htm>).

<sup>6</sup> Martin Wolf, “Asia’s Future Burning Bright,” *Financial Times*, 23 February 2000, 23.

million.<sup>7</sup> Most countries are suffering substantial unemployment and underemployment, facts reflected in historically low levels of price inflation and interest rates, despite healthy fiscal deficits running on the order of 4-5 percent of GDP. Even Japan, as is well known, suffers from the highest levels of unemployment since the end of World War II, and serious deflationary pressures.

The crisis also surprised some observers by generally reinforcing a preexisting trend towards greater openness to the global economy. Despite sometimes harsh criticisms of foreign investors and lenders, the IMF's initial fiscal austerity requirements, and perceived U.S. dominance of the international economic system, the wrath of most Asians was turned more at their own leaders, economic managers, and corporations, than at the impersonal forces of economic globalization. In general, Asians appear to have accepted, reluctantly in many cases, that their economic salvation will have to come mainly from adopting reforms aimed at more transparency in the management of their economies, more prudential financial sector behavior, and better corporate governance. Therein lies the rub—these necessary reforms are not yet much in evidence.

The willingness, however reluctant, to accept the IMF's policy conditionality rather than oppose it, appeared to go hand-in-hand with public support for political leaders who promised to end abuses such as favoritism towards well-connected individuals and corporations, generally referred to as "crony capitalism," and the desire to punish those associated with practices that had brought their national financial systems to the point of collapse. Even Malaysia, whose prime minister had railed against George Soros and other foreign "speculators," the IMF, and alleged U.S. wire-pulling, unilaterally adopted IMF-style austerity measures to restore foreign confidence in its economic management, while also imposing controls on capital flight.

The comparatively mild reaction to the downside of economic globalization in Asia thus far may also reflect the fact that, until the crisis, the growing involvement of East Asian countries in world markets generally had been viewed as beneficial by the affected populations. In many Asian countries, authoritarian leaders justified their rule by delivering the benefits of rapid economic growth and rising living standards, gains that would not have been possible without attracting foreign manufacturing investment and plugging into world markets. Opposition to globalization has tended to come mainly from non-governmental organizations (NGOs) that champion causes such as workers' rights and environmentalism, agendas that have received relatively weak public support. The markets of the crisis countries had remained comparatively closed to all but capital goods, high technology, and industrial inputs such as chemicals and raw materials. Thus, following a path of openness to foreign capital and technology generally had produced more gains than losses in terms of domestic economic interests and employment.

Also, after what were perceived as some initial missteps in the direction of excessive fiscal austerity, the IMF moved relatively quickly to loosen its constraints to allow deficit spending to bolster consumption and provide a social safety net.

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<sup>7</sup> "Indonesia's Economic Future Grows More Murky," *Asia Times* online, 29 January 2002 ([www.atimes.com/se-asia/DA29Ae02.html](http://www.atimes.com/se-asia/DA29Ae02.html)).

Indonesia and Thailand successfully bargained with the IMF to allow progressive increases in counter-cyclical deficit spending, while accepting other aspects of the IMF reform program.

*Ramifications of the Crisis for the Structure of Regional Relationships*

The Asian financial crisis not only weakened the affected countries but also damaged the institutional and structural underpinnings of regional stability and security. Among other consequences, the crisis cast doubt on the willingness of the United States to play its expected post-World War II role as the main pillar of the international economic system, it cast serious doubt on Japan's ability to play the role of regional economic leader, and revealed the Asia-Pacific Economic Cooperation forum (APEC) and ASEAN as ineffective talk shops, with no ability to coordinate a regional response.

Despite the strongly positive American contribution to East Asian prosperity, Asian countries generally viewed the U.S. response to the crisis as disappointing. After all, it was the United States that had been the leading proponent of financial sector liberalization. Instead of rushing to the rescue, the U.S. Treasury Department appeared to view the issue as a regional matter of little significance to the U.S. or global economy, and declined to deploy financing available in the Exchange Stabilization Fund.<sup>8</sup> Subsequently, in early 1998, the United States announced some \$1.7 billion in trade credits and aid, but Thais still view the United States, a treaty ally, as failing them in their moment of greatest need.<sup>9</sup>

By late 1997 the Clinton Administration began to take a more serious view of the crisis, when it appeared that South Korea, the world's 11<sup>th</sup> largest economy, might default on international loans amounting to tens of billions of U.S. dollars. The Administration provided about \$5 billion in accelerated funding in support of the IMF's \$57 billion rescue package, and helped negotiate the rollover of \$15 billion in international loans that were coming due in early 1998.<sup>10</sup> As far as the U.S. image was concerned, however, the damage was done. In addition to disappointment with the direct U.S. response, a number of affected countries, rightly or wrongly, saw the hand of Washington in what was perceived as harsh and wrong-headed IMF conditionality.

*Questionable Effect on Japan's Ambitions for Regional Leadership*

The Asian financial crisis and Japan's own severe economic problems have seriously compromised Japan's ambitions of regional leadership, giving new openings to China to take what it sees as its rightful place in Asian power politics. Japan initially committed \$44 billion in second-line financing and export credits and guarantees in support of the IMF-led rescue programs for Thailand, Indonesia, and South Korea. Subsequent commitments under the so-called Miyazawa Plan, named for the then

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<sup>8</sup> Paul Blustein, "Thailand Seeks IMF Bailout to Shore Up Its Financial System," *Washington Post*, 19 July 1997; Michael Vatikiotis, "Pacific Divide," *Far Eastern Economic Review*, 6 November 1997, 14-16.

<sup>9</sup> CRS Report for Congress (RL30312), "Thailand-U.S. Security, Economic, and Narcotics Cooperation Relations: Findings of a Congressional Staff Visit During August 9-15, 1999" [by Richard P. Cronin], 11.

<sup>10</sup> Paul Blustein, "\$10 Billion in Loans Rushed to S. Korea," *Washington Post*, 25 December 1997, A1, A32.



Japanese finance minister, pushed Japan's total commitment to about \$80 billion.<sup>11</sup> On the other hand, the withdrawal of Japanese capital and declines in Japanese imports from most Asian nations have had far more effect. Moreover, many of Japan's moves have been viewed as more aimed at protecting its offshore investments and joint-venture subsidiaries than in contributing to Asian recovery, even though the two objectives may be complementary.

On balance, Asians still value Japan's role and remain angry with the initial standoffish attitude of the U.S. Treasury Department and the Clinton Administration, and see the U.S. hand behind unwanted IMF prescriptions and conditionality. Among other points often made in Japan's favor, Japanese corporations generally did not flee the region and continued to carry out production for export, thus playing a key role in the ability of developing Asian countries to regain an export surplus. China, for its part, gained considerable applause for not devaluing the Yuan, which remains fixed at exchange rates determined by the financial authorities, and for a modest contribution of backup funds to the IMF-organized bailout.

#### *Little Credit to APEC or ASEAN*

Both APEC and ASEAN have substantially been found wanting in the crisis, though both have nominally continued to move forward with trade and economic liberalization agendas. The November 1998 APEC meeting in Kuala Lumpur was dominated by talk about the crisis but little concrete action. ASEAN has been wholly unable to achieve a coordinated response to the crisis, largely because most ASEAN countries export similar tropical products and are vying for the same kinds of foreign direct investment in export-oriented manufacturing. In addition, the then-expansion of ASEAN to nine members, including Vietnam, Burma, and Laos, has reduced the viability of the long-standing principles of consensus and non-interference in each other's internal affairs.

#### *From Crisis to Incomplete Recovery*

With the notable exception of Indonesia, the East Asian economies that were hardest hit by the financial crisis that began in Thailand in July 1997 have made a significant, though still incomplete, recovery. The impressive success of most countries in rebuilding their financial reserves and regaining a growth path has surprised many if not most analysts. The partial rebound has generated optimism within the international financial community, but also caution. A number of analysts and institutions warn that the regional recovery is uneven and incomplete, that important structural weaknesses remain to be addressed, and that incomes and living standards are still well short of pre-crisis levels in several countries. A March 2000 Asian Development Bank (ADB) report that described the recovery as cyclical rather than structural<sup>12</sup> may prove prophetic since the first recovery from the crisis was followed by loss of momentum in 2001. As of mid-2002, however, the ADB has estimated growth in developing Asia at about 4.8 percent, while the IMF has pegged 2002

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<sup>11</sup> Japan, Ministry of Foreign Affairs, "Asian Economic Crisis and Japan's Contribution," October 2000 ([www.mofa.go.jp/policy/economy/asia/crisis0010.html](http://www.mofa.go.jp/policy/economy/asia/crisis0010.html)).

<sup>12</sup> Asia Development Bank, *Asia Recovery Report 2000*. March 2000. Highlights (<http://aric.adb.org>).

growth at 5.9 percent for developing Asia and 3.6 percent for the newly industrialized economies of Southeast Asia. These results suggest that the social and political stresses resulting from the financial crisis itself are probably containable.

### **Problems of Governance and the Prospects for Stability and Security in Asia**

Although the picture drawn above could be said to reflect a mix of economic advances and setbacks, it would be difficult to assert that the cause of good *governance* has made major gains in any East Asian country, though financial management certainly has improved greatly in South Korea and Thailand. Nor, despite the status of governance—both public and corporate—as the development “flavor” of the first years of the new millennium, is the concept easy to promote from outside. As a consequence, problems of poor governance will likely remain important, if not the predominant, sources of threats to stability and security in this highly globalized region.

#### *Mixed Picture Concerning Democratization and Political Stability*

The effects of the financial and economic crisis have been mixed in regard to democratization and political stability, but in general, the crisis has tended to strengthen the move towards democracy in Asia, thus far. The election of former Korean opposition figure Kim Dae Jung as president in December 1997 strengthened South Korea’s nascent democratic traditions, but Kim has had only limited success in pushing reform of the *chaebol* and his party is in disarray as new elections approach. Kim’s “Sunshine Policy” towards North Korea probably has produced a paradigm shift, but has little to show for the effort and expense. More recently, corruption charges against his three sons, his wife, and close associates, have forced Kim to resign from his party in an effort to prevent a debacle in the presidential election scheduled for December 2002 (Kim is ineligible for another term.)

In the case of South Korea, poor governance could have important consequences for stability on the Korean Peninsula. First, the resident’s current problems have all but destroyed the possibility that his so-called “Sunshine Policy” of almost unconditioned engagement with the North can have any impact. Nor does Kim Dae Jung have much political capital left to work to improve relations with Japan, all but insuring that the Japan-South Korea side of the American alliance triangle in Northeast Asia will remain weak. Finally, the corruption issue exacerbates an existing problem of party instability, which also translates into policy instability.

Thailand’s democracy received a boost, with a peaceful transfer of power indicating that the emerging professional and middle classes preferred a more effective and more democratically-minded opposition leader, Chuan Leekpai. The Thai parliament also passed a new, more democratic constitution that had previously appeared headed for rejection. More recently, however, the dramatic, money-fueled rise of Prime Minister Thaksin Shinawatra’s Thai-Rak-Thai party has raised questions about issues of corruption, governance, and press freedom.<sup>13</sup> Thaksin’s populist economic program has boosted growth, but the end result may be a renewed

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<sup>13</sup> Songpol Kaopatumpit, “Now Who’s Head is Hurt?” *Bangkok Post*, 3 March 2002 ([www.bangkokpost.net/030302\\_Perspective/03Mar2002\\_pers64.html](http://www.bangkokpost.net/030302_Perspective/03Mar2002_pers64.html)).

economic crisis. Fiscal pump-priming has boosted property prices and fueled growth, but at the cost of rapidly increasing government debt. Given Thailand's precarious export competitiveness, government policies could lead to a new financial crisis.

In Indonesia, a rough kind of democracy has replaced Suharto's authoritarianism, but the roles and powers of the two parliamentary bodies and the president remain to be worked out. Freedoms of the press and of assembly have been accepted, and the Indonesian military, the TNI, has stepped into the background. The central government remains in disarray however, and the ugly specter of ethnic and religious violence, guerrilla warfare between separatists and undisciplined and poorly paid police, paramilitary, and military forces, and Islamic extremists—some with Al Qaida connections—stalk the provinces. Undeniably, Indonesians have made some progress towards a more democratic system. Parliament has flexed its muscles on a variety of important national issues, the president has popular support and a power base in a party that gained a plurality in elections, and both the Parliament and the president are likely to be directly elected in the next cycle.

Despite some progress in reshaping the country's political institutions, Indonesia remains essentially an oligarchy in which "crony capitalism" continues to thrive, and which the military, with all of its defects, remains the only institution with truly national scope. Especially because of its size and heterogeneous nature, Indonesia remains the Southeast Asian country in which weaknesses of governance have the most significant potential consequences for regional stability.

In Malaysia, many viewed the arrest and jailing of former Deputy Prime Minister Anwar Ibrahim, and the widespread use of police powers against political enemies as a setback for political freedom, but some critics also fear the consequences if Mahathir and the United Front were to falter and the PAS, the Islamist party, to make further electoral gains. Mahathir has succeeded in steering the corporatist-style Malaysian economy through a middle path between catastrophe and the surrender to the "Washington Consensus," and now finds himself a valued partner of the United States in the anti-terrorist campaign.

This new role also puts a sharper edge on ethnic and religious tensions in Malaysia, however. Pressures of globalization have progressively undercut the viability of Malaysia's three-decade old New Economic Plan (NEP), an effort to raise the economic standing of Malays through a kind of affirmative action, without imposing enough constraints on the educational and entrepreneurial aspirations of the ethnic Chinese minority so as to force them out of the governing United Front Coalition. For the time being, Mahathir's aggressive pursuit of Islamic extremists and terrorists may give him a political respite, but in the longer term the buildup of deep social and political contradictions continues. Meanwhile, Malaysia's longest serving leader is not getting any younger, and it seems that no tree can grow within the shadow he casts over the United Malays National Organization (UMNO), the core of the ruling United Front.

#### *Continued Adherence to the "East Asian" Economic Model*

Arguably, one part of the problem of governance in the region is the continued commitment of most East Asian countries to the so-called "East Asian" economic

model, which relied on unrestrained debt and close government-business collusion. The hope of market-oriented economists and analysts, including U.S. and IMF officials, that the crisis would lead to a more transparent, more equity-based, and more fully entrepreneurial economic model seem likely to be disappointed, at least in the medium term. In fact, due to the use of public funds for bank recapitalization, governments are even more heavily involved in many Asian economies than in the past, and powerful vested interests continue to fight a rearguard action against needed structural reforms and efforts to reduce huge levels of non-performing debt.

### *Slow Pace of Corporate Reform*

Likewise, politically influential corporate interests have resisted government efforts to force consolidation and industry restructuring. In South Korea, which has made the most progress, the politically powerful *chaebol* conglomerates and labor unions have fought tooth and nail against the Kim Dae Jung government's plan for a major rationalization and consolidation of major industrial sectors. The country's second largest *chaebol*, Daewoo, which alone reportedly has debts totaling \$50-65 billion, resisted government divestiture and consolidation pressures almost to the point of bankruptcy. Had the government not intervened forcefully, according to one industry analysis, Daewoo's collapse would have brought down the already insolvent investment trust companies (ITCs) that are the chief source of financing for Korean companies and the dominant players in the country's equity markets.<sup>14</sup>

Because of the political sensitivity of the issue, the South Korean government has taken an inconsistent stance on bailouts of large debtor companies, such as Daewoo Motors and Hynix Semiconductor. In February 2002, in response to accusations that the government was still coddling bankrupt but politically important enterprises, the South Korea Finance Minister attempted to shift the blame for lagging reform of the *chaebol* onto the country's banks, which he said were not yet up to the task of imposing financial discipline.<sup>15</sup>

Some analysts despair of seeing significant near-term corporate reform in other Asian economies, except among already viable companies that are responding to global competition. The tendency appears to be for companies to find ways to stay afloat financially, often by defaulting on loans and postponing payments to suppliers, in hopes that a general economic turnaround will put them back into the black. A March 2000 report by the Asian Development Bank (ADB) warned against the dangers of a "growth first" strategy, in which financial and corporate restructuring is postponed until growth begins to restore asset values. The ADB found this approach "risky," given the uncertainties about future growth prospects, but also said it could "invite a recurrence of problems at a later date," when governments would have no flexibility to assume more debt.<sup>16</sup>

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<sup>14</sup> Charles S. Lee, "Last Gasp? Daewoo Receives a Debt Reprieve," *Far Eastern Economic Review*, 29 July 1999, 59, Nomura, *Korean Economics*, October 1999, 10.

<sup>15</sup> Don Kirk, "Korean Official Defends Seoul's Efforts on Economy," *New York Times*, 23 February 2002, B2.

<sup>16</sup> ADB, *Tracking Asia's Recovery—A Regional Overview*, March 2000, 17.

#### *Persistence of Corruption*

The current political instability in many Asian countries coupled with the inherent limitations of the East Asian model in a globalized economic and financial environment also make it difficult to make headway against corruption. Ultimately, politics is about power and money. Reform tends to be the luxury of rich, expanding economies, whereas the shrinkage of the economic pie tends mainly to increase the competition for control of scarce resources.

#### *Implications for U.S. Interests and Regional Stability and Security*

Despite signs of a general economic recovery, U.S. interests continue to be affected by several lingering aspects of the crisis and deeply imbedded problems of weak governance in most East Asian countries. U.S. military power and the importance of the U.S. economy to Asian and global growth cannot be gainsaid, and from a balance of power perspective, few challenges are evident to the U.S. position or to regional security. China's economic and military strength is growing, but its military forces in particular are outclassed by those of the United States and Japan. Moreover, its own crisis of governance, which may be deeper than in any other major Asian country remains serious. Its military limitations, and several sources of social and economic weakness, will likely prevent Beijing from breaking the peace in the foreseeable future.

Because of the economic prostration of Indonesia and fears that the vast and populous island republic might even break up, regional concerns about China's potential ability to project power and influence into Southeast Asia have grown considerably. Japan in particular is worried about the possible political disintegration of a region that it has long regarded as strategically important. Whether the countries of ASEAN bend towards China or re-coalesce under Japan's wing could have important implications for regional peace and stability. The ability of the ASEAN countries and Japan to overcome their current economic and financial difficulties would likely be a major determinant, as would China's own efforts to address its deep-seated structural problems.

In the end, the lessons of both the financial crisis and the September 11, 2001, terrorist attacks, appear to be that the greatest dangers to U.S. interests remain non-traditional ones not involving raw military or economic power. In this sense, how the United States deals with the problems of weak governance that are prevalent in the East Asian region could have great significance for U.S. regional interests and security. The challenge is to find ways to make headway on these issues of democracy, political stability, and governance in the face of current adverse economic trends and the complex rise of Islamic radicalism and terrorism in Southeast Asia.





## CHAPTER 3

### GLOBALIZATION AND ECONOMIC GOVERNANCE IN EAST ASIA: Responding to the New Rules of the Game in Foreign Investment

JOHN RAVENHILL

#### Introduction

Foreign direct investment (FDI) is the principal driver of globalization. The geographical dispersion of manufacturing, linked through increasingly complex production networks, is the defining characteristic of the contemporary globalized economy. How best to attract, to retain, and to maximize the benefits of foreign investment for the local economy is one of the most significant governance issues facing East Asia.

East Asia is arguably the most globalized region of the world economy. Not only do East Asian economies have more diversified export markets than most other developing economies, depending heavily on extra-regional trade rather than on a single dominant regional trading partner, but foreign investment has played a particularly important role in the industrialization of some economies (most notably Malaysia and Singapore but also, more recently, China (see Table 3.1).

**TABLE 3.1**

**FDI share in Gross Fixed Capital Formation (%)**

	<i>1989-94</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
<b>East Asia</b>						
<b>Average</b>	<b>5.9</b>	<b>8.2</b>	<b>9.1</b>	<b>10.1</b>	<b>10.4</b>	<b>11.2</b>
China	7.9	14.7	14.3	14.6	12.9	11.3
Hong Kong	14.8	14.6	21.7	19.8	29.9	60.2
Malaysia	19.4	15	17	15.1	13.9	20.1
Singapore	30.3	31.2	29.7	35.3	20.6	26.1
Philippines	4.5	8.9	7.8	6.2	12.7	5.1
Indonesia	4	7.6	9.2	7.7	-1.6	-11
<b>Developing</b>						
<b>Countries</b>						
<b>Average</b>	<b>5.2</b>	<b>7.7</b>	<b>9.1</b>	<b>10.9</b>	<b>11.7</b>	<b>13.8</b>

*Source:* UNCTAD. *World Investment Report 2001: Promoting Linkages*. Geneva: UNCTAD, 2001.

The creation of a new regional division of labor in East Asia, following the currency realignments engineered by the 1985 Plaza Accord, was driven in large part by the establishment of new production networks that spanned the region. A huge increase in investment flows from Northeast Asia into ASEAN economies played a significant role in transforming the composition of Southeast Asian exports away from commodities to manufactured goods. It was not just the capital that the production networks transferred that was significant: arguably of even greater import were flows of technology, both physical and “tacit,” and of management expertise, and the access to industrialized economies’ markets that the networks facilitated. The new regional division of labor not only enhanced growth rates in Southeast Asia but also helped resolve some trans-Pacific trade tensions by shifting production for the U.S. market from Northeast to Southeast Asia, and enabled firms in Northeast Asia, faced by rising labor and land costs at home, to maintain their competitiveness.<sup>1</sup> With the growth in “reverse exports” by Japanese subsidiaries, first from Southeast Asia and more recently from China, Japanese consumers have finally benefited from the lower production costs in other parts of the region.

While there is little sign that the dynamic synergies that have been generated by the evolving regional division of labor in East Asia are about to end, states face new challenges in their economic governance if they are to continue to enjoy the status of favored locations for foreign investment. This chapter focuses on several of these:

- Increased competition for foreign investment (including intensified intra-regional competition);
- Recent international agreements that have proscribed favorite policy instruments used by states to impose performance conditions on foreign investors; and
- Technological change, which together with global overcapacity in several industrial sectors, is contributing to processes of consolidation and denationalization of industries.

### **Increased Competition for Foreign Investment**

The data in Table 3.1 show that whereas the average share of foreign direct investment in gross capital formation in East Asia was above that for all developing economies in the first half of the 1990s, that trend was reversed from 1997 onwards. Two factors are significant here: the efforts of other developing countries to increase their attractiveness to foreign capital by entering into regional agreements with each other and with industrialized countries; and the aftermath of the East Asian financial crisis.

To take the second factor first: the pattern of foreign investment flows into East Asia has changed significantly since the onset of the financial crisis (Figure 3.1). Foreign direct investment into Northeast Asia has risen dramatically since 1997,

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<sup>1</sup> Mitchell Bernard and John Ravenhill, “Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia.” *World Politics* 45, 2 (January 1995): 179-210



nearly doubling in volume over the last three years. In contrast, flows into Southeast Asia fell precipitously after 1997, and remain substantially below their peak.

Some of the explanation for the relatively poor performance of Southeast Asia lies with Indonesia's ongoing economic and political fragility but levels of FDI into Singapore and Thailand have also languished below their mid-1990s peaks (Figure 3.2). Malaysia too has yet to regain the levels of inward investment experienced in the immediate pre-crisis period.

Such declines have occurred at a time when global foreign direct investment flows reached record levels. In contrast with the ASEAN countries, the economies of Northeast Asian countries have been major beneficiaries of this increase in flows (Figure 3.3). Perhaps surprisingly, the largest increase in overall flows has gone not to China but to Hong Kong. But here the data can be misleading. Hong Kong has become one of the world's largest sources of foreign direct investment as well as one of its major hosts, with much of the money invested in Hong Kong findings its way to the mainland. South Korea, traditionally an economy that shunned FDI, has seen substantial increases in inward investment since the liberalization implemented by the Kim Dae-Jung government. Taiwan, too, has received increasing flows, albeit of a magnitude massively overshadowed by the flows into Hong Kong and China.

**FIGURE 3.1**

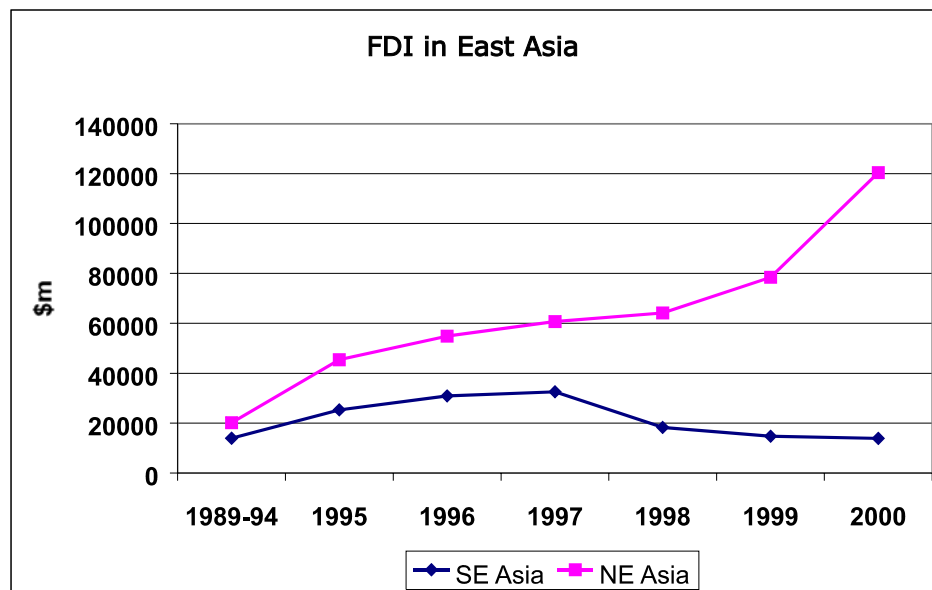


Figure 3.2

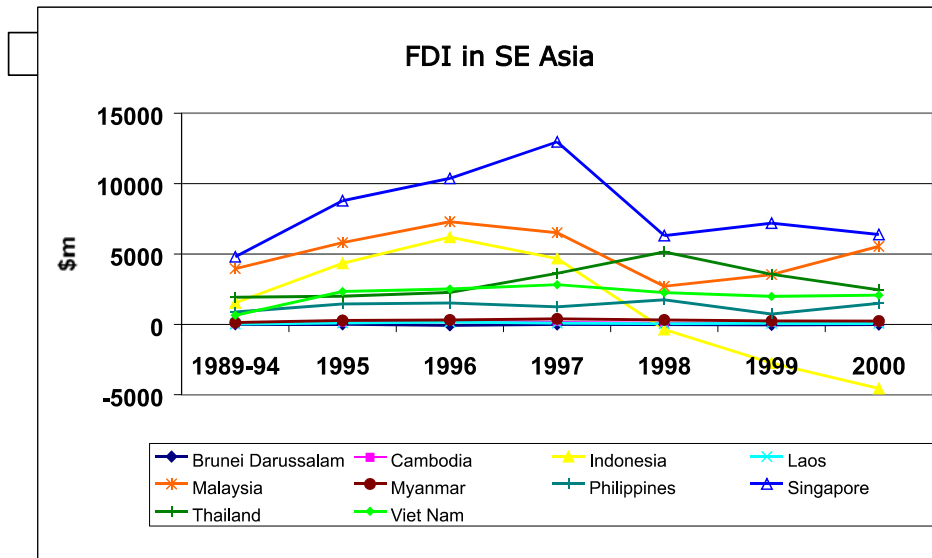
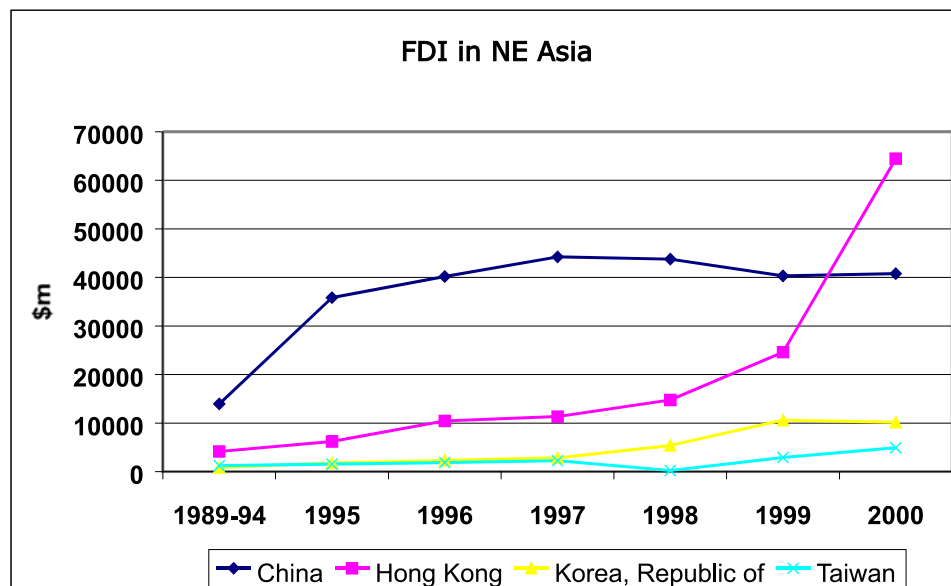


Figure 3.3



The fear that China would be an irresistible magnet to potential foreign investors in East Asia has long worried ASEAN leaders and was a major stimulus behind their decision at the fourth ASEAN summit in Singapore in January 1992 to form an ASEAN Free Trade Area (AFTA). Despite bringing forward the start date for AFTA to 1 January 2002, the fears of ASEAN leaders regarding China's allure to foreign investors appeared to have been realized since the mid-1990s. By the turn of the century, investment directly into the mainland (not counting the additional flows through Hong Kong) was more than double the value of all inflows into the ten ASEAN member states. This can be misleading, however, in that it includes "round-tripping" domestic capital that is disguised to exploit various concessions granted to foreign investment.

National data on foreign direct investment for Japan and the United States show no evidence of a significant diversion of capital flows away from Southeast Asia to China. Overall levels of Japanese FDI to East Asia have dropped substantially since the mid 1990s, a reflection of Japan's own economic problems as well as of the financial crises in other parts of the region. Flows to China have fallen most precipitously, to a greater extent even than flows to the ASEAN4 (Thailand, Singapore, Malaysia and the Philippines), although investment through Hong Kong may offset some of this drop. Neither Japanese political leaders nor company executives wish to place themselves in a position where they are overwhelmingly dependent on suppliers in China: security and thus diversity of supply will be as much of an issue in manufacturing as it has been in raw materials for Japan, a consideration that should work to Southeast Asia's advantage.

U.S. data present a similar picture of continued investor interest in Southeast Asian economies. Even in the immediate post-crisis years, ASEAN collectively continued to receive from the U.S. more than three times the investment that flowed to China directly; the total for China and Hong Kong combined remained below that for ASEAN (Table 3.3).

**Table 3.2**

**Japanese FDI in East Asia (\$m)**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
East Asia	9317	11763	10997	11094	6169	6825	5711
ASEAN4*	3887	4110	4948	5696	3340	2876	2035
NIEs**	2865	3179	3539	3411	1765	3198	2682
China	2565	4473	2510	1987	1065	751	995

\* Indonesia, Malaysia, Philippines and Thailand

\*\* Hong Kong, Republic of Korea, Taiwan, Singapore

Source: JETRO *White Paper on Foreign Direct Investment* (various years)

**Table 3.3**

**US Direct Foreign Investment in East Asia (\$m)**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>China</b>	1,232	261	933	1,250	1,497	1,595	1,245	1,481
<b>Hong Kong</b>	1,979	631	1,690	3,759	1,880	2,645	3,138	2,888
<b>Korea</b>	390	1,051	752	681	631	1,219	1,244	1,067
<b>Taiwan</b>	711	419	290	702	-647	551	1,147	840
<b>Indonesia</b>	735	519	956	21	461	2,223	1,182	735
<b>Malaysia</b>	553	1,037	1,298	733	-470	37	260	300
<b>Philippines</b>	414	269	738	107	287	-292	49	50
<b>Singapore</b>	1,836	947	2,760	3,697	261	2,964	2,690	3,506
<b>Thailand</b>	703	686	849	-16	424	1,143	539	1,154
<b>TOTAL</b>	<b>8,553</b>	<b>5820</b>	<b>10266</b>	<b>10,934</b>	<b>4,324</b>	<b>12,085</b>	<b>11,494</b>	<b>12,021</b>
<b>(ASEAN)</b>	4241	3458	6601	4542	963	6,075	4,720	5745

Source: US Department of Commerce, Bureau of Economic Analysis. *U.S. Direct Investment Abroad: Capital Outflows* US Department of Commerce, 2002 [cited 5 April 2002]. Available from <http://www.bea.doc.gov/bea/di/usdiacap.htm#2001>.

The available data thus provide a somewhat ambiguous picture on the question of the “threat” from China. To what extent does evidence exist at the country level that production facilities are being moved from Southeast Asia to China? Because these are recent developments they must again be interpreted with caution. Some evidence is accumulating, however, of relocation of some segments of electronics production from Southeast Asia to China. For instance, Advanced Micro Devices, a major semiconductor manufacturer, transferred some production lines from Penang, Malaysia to China in 2001, and Dell has relocated its desktop production for the Japanese market from Penang to Xiamen in China.<sup>2</sup> Given the sunk costs of investments especially in more high-technology areas, such as the linkages established with component suppliers, the wholesale transfer of production facilities from Southeast Asia to China appears unlikely. A more relevant threat is the possibility that Southeast Asian countries will increasingly miss out on new investments so that such a transfer will occur almost by stealth. Whether the downturn in FDI into Southeast Asia is more a consequence of the cycles of demand and investment in the electronics industry or of factors that are more fundamental should become clearer with the expected recovery of the global electronics industry in the next two years.<sup>3</sup> But it is not just the diversion of foreign investment that poses a threat to other parts of the region but also the growth of Chinese-owned companies that compete on world markets, for instance, with Japanese subsidiaries that manufacture air conditioners and refrigerators in Southeast Asia.

Wages for unskilled labor in China are estimated to be one-tenth of those in Malaysia; no Southeast Asian economies can compete with such rates and offer to potential investors the levels of infrastructure available in coastal China. China is attractive to FDI not only for its low-cost unskilled labor and for its huge domestic market, however, but also because of its relatively cheap *skilled* labor. Motorola, Lucent Technologies, General Motors, IBM, Intel, Microsoft, Procter & Gamble, and Texas Instruments are among the leading U.S. companies that have established R&D Centers in China. A dramatic change in the composition of China’s exports has occurred, with the share of machinery and equipment in total exports rising quickly (see Box 1). The value of China’s exports of high and new technology products rose from \$7.7 billion in 1996 to over \$37 billion in 2000.<sup>4</sup>

For Southeast Asian states, increased competition for FDI comes not only from within the region. It is particularly pronounced from countries that are adjacent to and/or that have entered into preferential trade agreements with the world’s two dominant economic areas, the United States and the European Union. Mexico and some of the Central and Eastern European (and even North African) countries have reinforced the “natural” advantages, stemming from transportation costs and time

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<sup>2</sup> For further discussion see Dieter Ernst, “Global Production Networks in East Asia’s Electronics Industry and Upgrading Perspectives in Malaysia.” Honolulu: East-West Center, Working Papers, Economics Series No. 44, May 2002.

<sup>3</sup> Electronics products constitute around 60 percent of the total export earnings of Malaysia, Singapore and the Philippines, a substantially higher percentage than for China, Korea, or Taiwan.

<sup>4</sup> UNCTAD. *World Investment Report 2001: Promoting Linkages*. Geneva: UNCTAD, 2001, p. 26.

zone considerations, that they enjoy over East Asia as suppliers by entering into preferential trade agreements with the dominant regional economies.

### BOX 1: RISE OF CHINA

The ranking of China's exports valued in US dollars rose from 13<sup>th</sup> in the global economy in 1990 to 9<sup>th</sup> in 1999 and to 7<sup>th</sup> in 2000.

China overtook the EU as Japan's second largest source of manufactured goods in 2000. The proportion of Japan's imports from China consisting of machinery and equipment rose from 4.3% in 1990 to 26.1% in 2000.

China is already the world's biggest producer of:

Steel	(15% of world output)
Synthetic Textiles	(23.5%)
Color TVs	(25.4%)
Air Conditioners	(50.1%)
Washing Machines	(23.5%)
Refrigerators	(21.1%)

*Source:* Ministry of Economy, Trade, and Industry, Government of Japan, *White Paper on International Trade 2001* (Tokyo, 2001).

### Responding to the New Competition

Options available to East Asian governments to respond to the growing competition for foreign direct investment and to the strategies adopted by their competitors include:

- Seeking to negotiate their own preferential arrangements to attempt to ensure access for their exports on equal terms to those enjoyed by other preferred suppliers. Examples include Singapore's negotiation of a preferential trade agreement with the US and its proposal for a similar agreement with the EU; and Japan's negotiation with Mexico.
- Negotiating in the World Trade Organization (WTO) to promote liberalization on a non-discriminatory basis. This had been the preferred approach of most East Asian governments in the past 40 years, and one that APEC was designed to facilitate. But disillusionment with APEC and concern at other countries' use of preferential agreements to strengthen their bargaining hand in trade negotiations has, since the financial crisis, caused bureaucratic resources

to be devoted primarily towards negotiations at the bilateral or pan-East Asian level.

- Offering bilateral or regional investment agreements to potential investors. Many of the recent regional trade agreements have sought to be “WTO Plus” in covering areas other than the removal of tariff and non-tariff barriers. A principal element in such deepening of cooperation on a regional basis has been the negotiation of agreements on the treatment to be received by foreign investors, agreements that typically proscribe conditions such as a requirement to enter a joint venture arrangement, or to meet specific export targets. APEC’s efforts in this regard have been derisory, its non-binding investment principles being riddled with loopholes. In a similar vein, the ASEAN Investment Area, an investment liberalization program initiated in 1998 in response to the financial crisis, has done little to accommodate the concerns of extra-regional investors, which were initially excluded from the principal benefits of the agreement for ten years.<sup>5</sup> Despite the failed OECD Multilateral Agreement on Investment, this issue remains prominent on the international agenda. The so-called “Singapore issues” in the WTO (matters placed on the organization’s agenda at the WTO ministerial meeting in Singapore in 1996) include provisions on investment, which are due to be discussed again at the Mexico ministerial in 2003.<sup>6</sup> While China continues to attract FDI despite failing to provide a secure legal framework for investors, it may become increasingly difficult for other regional countries to do so.
- Provide an enlarged regional market to increase the opportunities for cost-effective production by foreign investors for the local market, and for an enhanced regional division of labor. These ideas have underpinned the implementation of AFTA. But ASEAN’s performance on trade liberalization has lagged behind that of other regional groupings of developing economies. Complete liberalization (removal of all tariffs) will not occur until 2015 (only a few years before the APEC target date for full free trade liberalization by its members); the frequent amendments to the ASEAN arrangements plus ongoing derogations, most significantly for Malaysia’s auto industry, have caused uncertainty for foreign investors.

### **Responding to New Institutional Constraints**

The balance of power in the bargaining relationship between host governments and transnational corporations (TNCs) has shifted substantially in the last two decades, posing additional challenges for host governments. The dominant pro-liberalization consensus has been enshrined in various international agreements that have limited

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<sup>5</sup> In September 2001, ASEAN members removed this discriminatory provision.

<sup>6</sup> See, for instance, Mike Moore, “Development Needs More than Trade”, *Financial Times* (17 February 2002).

the policy instruments available to host country governments in their efforts to maximize the benefits to the local economy of foreign direct investment.

The most significant of these international constraints is the 1995 WTO Trade-Related Investment Measures agreement (TRIMs), which outlaws the use of local content requirements and of stipulations that foreign investors must export a specific value of their product to offset their imports or other consumption of foreign exchange. Less developed countries were allowed a five-year adjustment period to phase in the agreement and an opportunity to apply for an extension of this period. Malaysia, the Philippines and Thailand have taken advantage of this option, and have received further extensions. But the writing is very clearly on the wall as far as a phasing out of these arrangements is concerned and is unlikely to be reversed during the new round of WTO talks. Even the Malaysian government, which continues to use such requirements to protect the domestic automobile industry, agreed to eliminate its remaining restrictions by the end of 2003. The new international legal framework makes it increasingly difficult for host governments to compel foreign investors to create linkages with the local economy (and thereby also largely eliminates the opportunities to use requirements imposed on foreign investors as a means of pursuing domestic social goals, as the Malaysian government has done, for instance, in promoting *bumiputera* companies).

The challenge for governance is how to replace instruments of compulsion with effective inducements that will achieve the desired results of enhancing local linkages from FDI. Among the instruments available are tax exemptions from value added tax to encourage the use of local inputs, as provided by the Indonesian government, and tax deductions for the testing of local suppliers' products as offered in Malaysia.<sup>7</sup> Offering inducements in the form of tax holidays or subsidies for undertaking various activities, however, is also increasingly in conflict with international agreements. Some incentive provisions fall foul of the TRIMs agreement; others are proscribed under the WTO Agreement on Subsidies. Given the relatively recent introduction of this legislation and an initial five-year phase-in period for developing economies, many inducement measures fall into an as yet untested "grey" area. They remain open to challenge, creating uncertainty for governments and foreign investors alike. Given the vigilance with which industrialized economies now monitor the trade policies of developing countries, and the increasing resort of governments to anti-dumping legislation, the capacity of governments to offer financial inducements to potential investors has been significantly impaired.

In the more competitive environment for FDI, potential investors take it for granted that a liberalized investment regime will be in place. By itself, such a regime will provide a host economy with no advantage over most of its competitors. Liberalization may be essential but will be insufficient to lure investors.<sup>8</sup> In considering where to locate their investments, TNCs are increasingly motivated by "asset seeking", that is, their investment decisions are shaped by the complementary

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<sup>7</sup> Greg Felker and K. S. Jomo "New Approaches to Investment Policy in the ASEAN 4" (Manila: Asian Development Bank, 2000). Available at <http://www.adbi.org/para2000/papers/Jomo.pdf>.

<sup>8</sup> A recent UK White Paper on Development notes, for instance, "even with good policies in place it can be difficult for some developing countries to stimulate domestic investment and attract foreign investment".



assets that host country economies can provide.<sup>9</sup> Such asset seeking poses significant governance challenges to host economies: how can they upgrade local assets to make them more attractive to potential investors, and how can they extract maximum benefits for the local economy in a bargaining relationship that has become increasingly lopsided?

The upgrading of local assets points to the importance of further enhancement of national innovation systems—institutions (universities, industry, research institutions, and government agencies) and networks among them for the creation and dissemination of knowledge. The Northeast Asian states have a far stronger foundation on which to build in reinforcing their national innovation systems than have their Southeast Asian counterparts, with the notable exception of Singapore. In Southeast Asia, national innovation systems continue to fall short of providing the requisite training to a sufficient portion of the population. A shortage of skilled labor remains a significant bottleneck in Malaysia and Thailand. Technical training for specific industries, e.g., automobiles, is inadequate. And, as yet, there is little evidence that these Southeast Asian governments have grasped the nettle on these issues in the post-crisis period (in marked contrast, for example, to government plans for a radical restructuring of the national innovation system in South Korea). In any event, even with the best of wills supported by substantial resources, governments cannot engineer a substantial improvement in national innovation systems overnight.

In the short to medium term, among the most effective measures that governments can utilize to enhance the attractiveness of local economies to foreign investors are:

- One-stop facilitation of administrative approvals;
- Provision of specialized physical, customs-related, and technical infrastructure;
- Support for labor procurement and skills development; and
- Match-making between investors and local suppliers.<sup>10</sup>

Such measures, as Felker and Jomo argue, present “daunting political and administrative challenges” to government. Their effective implementation often requires detailed knowledge of the requirements of firms in specific industries, and the capacity to create a close working relationship with potential investors. The information requirements for successful policy-making are much greater than in the past, and the new forms of relationship demanded by investors frequently require a significant administrative revamp.

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<sup>9</sup> John Dunning’s phrase, quoted by Greg B. Felker, “Southeast Asian Industrialism and the Changing Global Production System.” Paper presented to a conference “Running on Empty? Politics, Markets and Southeast Asian Regionalism”: City University of Hong Kong, 17 - 18 January 2002.

<sup>10</sup> Felker and Jomo, “New Approaches to Investment Policy” p. 3.

### The Challenge of Responding to Rapidly Changing Industrial Structures

Other dimensions of contemporary globalization raise further challenges for governance. Several industrial sectors of significant interest to East Asian economies are characterized by substantial global overcapacity (see Box 2). Such overcapacity is most pronounced in the automobile industry, a significant employer in most East Asian countries, and an industry that governments have traditionally sought to promote through heavy protection. Indeed, the auto industry in most parts of East Asia remains highly protected with the consequence that production (with the exception of the Korean industry) is predominantly for local markets.<sup>11</sup>

#### BOX 2: OVERCAPACITY RATIOS\*

<b>AUTOMOBILES</b>	<b>42.6%</b>
<b>Petrochemicals</b>	<b>15.5%</b>
<b>Steel</b>	<b>10.2%</b>
<b>SHIPBUILDING</b>	<b>9.8%</b>
<b>Semiconductors (DRAMs)</b>	<b>7.1%</b>

\* Ratio of excess capacity to current total demand

*Source:* Samsung Economic Research Institute, *Korea Economic Trends* 216 (23 February 2002)

The recent history of the global automotive industry illustrates the interplay of global overcapacity, rapid technological change, and an increasingly liberalized trade regime in generating intensified competition in this sector, and the new challenges these developments pose for developing economies:

- Intensified competition and global overcapacity have set in train a significant consolidation of the industry as assemblers attempt to realize economies of scale and scope by using common platforms for different models. Even Japanese producers have not been immune to the financial problems caused by increased competition, with Isuzu, Nissan, and Mitsubishi being absorbed respectively within the General Motors, Renault and Daimler-Chrysler partnerships. Coupled with the increased pressure for liberalization of the trade regime, and currency depreciations that have made East Asian assets relatively inexpensive for American and European investors, this growing concentration of the industry has made it increasingly difficult for governments to pursue policies of promoting national champions. South Korea provides the best illustration. Its auto industry has been transformed since the mid-1990s, when there were five

<sup>11</sup> Tariffs on imported vehicles range from eight percent in Korea to three hundred percent in Malaysia: these are frequently accompanied by a variety of non-tariff barriers, local content requirements, etc.

domestically owned assemblers (Daewoo, Kia, Hyundai, Samsung and Ssangyong), to the current situation where only one (the merged Hyundai/Kia operation) survives. Less dramatically but in a similar vein, Daihatsu took over the production facilities of Malaysia's second assembler, Perodua, in December 2000. (Significant for this point and the following is the overwhelming share of foreign direct investment in recent years that has been devoted to mergers and acquisitions—\$1.1 billion of the total global FDI in 2000 of \$1.3 billion. The driving force in contemporary FDI is the acquisition of existing companies and their facilities rather than the construction of new ventures).

- Intensified competition plus technological change is transforming the relationship between assemblers and first-tier suppliers. Suppliers are under intense pressure to reduce the costs of components. Moreover, assemblers are increasingly looking to suppliers to provide complete modules rather than individual components. One consequence is that assemblers now expect suppliers to acquire new competencies and a capacity for research and development that is often present only in the larger firms. A global consolidation of the supplier industry is taking place with a small number of giant transnationals coming to dominate the first-tier suppliers. Again, a process of de-nationalization is taking place. Across the region, the financial crises of 1997-98 led to the disappearance of hundreds of smaller suppliers. A significant number of larger domestically owned companies, faced by debt problems, either entered into joint ventures with or were absorbed by some of the global giants. Many domestically owned companies lack the skills to survive without a foreign partner. The increasing reliance in the industry on e-commerce is another factor raising the entry barriers to firms from developing economies.

De-nationalization does not necessarily equate with de-industrialization. In the automobile industry, the ratio of value to weight is much lower than in electronics, posing a natural barrier to centralized production of some components. Moreover, fluctuating exchange rates, a more common feature of East Asia since several countries abandoned a dollar peg after the financial crisis, provide a powerful inducement for assemblers to source locally. Toyota, for instance, has announced that it will endeavor to source all components from within the territory in which each of its assembly plants is located, an attempt to avoid the currency fluctuations that have had a detrimental impact on its operations in recent years. Yet if operations continue within the domestic economy, the fact that the companies are now foreign-owned and managed poses new challenges for governance, particularly for efforts to ensure the enhancement of linkages with other parts of the domestic economy. This challenge again points to the imperative of upgrading local capabilities.

## Conclusion

East Asian economic growth in the last quarter of a century has been intimately linked to foreign direct investment—both from within and outside the region. Such investment has rapidly transformed the export composition of first the Southeast Asian economies and then more recently China, and enabled these countries to participate in the most technologically advanced and dynamic segments of the global economy. East Asian governments were not passive recipients in this process but responded to the opportunities that globalizing processes offered by creating the conditions that made their economies attractive hosts for potential investors. For several of these economies, the challenge now is to ensure that they enhance the domestic value-added in manufacturing within global production chains rather than being confined to low-wage and low-skill tasks.<sup>12</sup>

Upgrading of local skills is the key to enhancing local value added just as it is to attracting additional foreign investment. East Asian economies start from a strong position in the contemporary competition for foreign investment by virtue of the presence of industrial clusters established by previous investment. Yet such clusters, and especially their backward linkages to local economies, vary substantially across the countries of the region. Past success is no guarantee for the future, especially when the contexts in which the competition for investment is taking place are changing so rapidly.

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<sup>12</sup> A challenge highlighted in UNCTAD. *Trade and Development Report, 2002*. Geneva: UNCTAD, 2002.



## CHAPTER 4

### GLOBALIZATION AND ITS THAI CRITICS

THITINAN PONGSUDHIRAK

#### Introduction

It has been argued that “globalization,” particularly the apparent acceleration of global economic integration, has diminished the ability of individual states to formulate and implement their economic policies. “States,” in an admittedly crude characterization, are thus losing their authority and autonomy to manage domestic political economies to “markets.”<sup>1</sup> The debate underpinning the nature, meanings and impact of globalization intensified throughout the 1990s as economic crises in the developing world became more frequent, costly and difficult to rectify. The crises among emerging-market economies were increasingly taken as evidence of limited state capacity to manage its domestic economic affairs in the face of the globalization of market forces. In particular, the “Asian crisis” of 1997-98 was widely viewed as a demonstration of the powerful forces of financial globalization and the constraints they place on the East Asian states’ ability to control their domestic economies.

This chapter explores the globalization debate with special reference to Thailand, the geographical genesis of the Asian crisis. Contrary to what is now the conventional wisdom in Thailand, I argue that the country’s economic crisis in 1997 was domestically rooted, with external factors playing a secondary role. In the aftermath of the crisis, a coalition of vested interests comprising disaffected business groups, with unwitting intellectual support from academics and NGOs who opposed neoliberal structural reforms mandated by the International Monetary Fund, arose to hinder, undermine and reverse Thailand’s post-crisis reforms and adjustments. This coalition eventually succeeded in realizing their agenda when the Thai Rak Thai party-led government of Prime Minister Thaksin Shinawatra took office in January 2001. Thaksin’s populist/nationalist policy platform has since turned Thailand further away from the structural reforms needed to propel the Thai economy forward into the 21<sup>st</sup> century. To demonstrate this argument, the chapter is divided into three sections. The first homes in on the primary, domestic causes of the crisis. The second section surveys alternative explanations. Finally, the anti-globalization movement is

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<sup>1</sup> See, for example, Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy*, Cambridge, UK: Cambridge University Press, 1996; Strange, *Mad Money*, Manchester, UK: Manchester University Press, 1998.

pinpointed, highlighting the risks it has generated for Thailand's near-term economic growth under the Thaksin government.

### **Democratic transition: A domestic explanation of the 1997 crisis<sup>2</sup>**

Observers on the local scene would be hard-pressed today to locate the domestic causes of the Thai crisis, thanks to anti-globalization public perceptions that coalesced roughly around mid-1998 and to the Thaksin government's nationalistic preferences and "inward-looking" policies since January 2001. Remarkably, throughout the one-year administration of Prime Minister Chavalit Yongchaiyuth from November 1996 and through the first six months of the Chuan Leekpai government from November 1997, local debates were consumed by the search for domestic culpability. Newspaper headlines during much of the 1996-1998 period were dominated by domestic financial scandals. Commercial bankers, central bankers, and an unscrupulous assortment of financiers and elected politicians were exposed for their collusion in the shady extensions of bank loans based on shoddy collateral, with the implicit acknowledgement of the Bank of Thailand (BOT). This nexus of cronyism and corruption rotted the Bangkok Bank of Commerce (BBC), a mid-sized commercial bank whose insolvency in mid-1996 under the Banharn Silapa-archa administration was the catalyst for a broader financial sector collapse and the subsequent balance-of-payments crisis that was capped by a forced devaluation in July 1997. The pursuit of domestic sources of the crisis culminated in March 1998 when a blue-ribbon non-partisan panel of experts, headed by a respected former central bank governor, issued its findings.<sup>3</sup>

That the commercial bankers, BOT officials and elected politicians under both the Banharn and Chavalit coalition governments were able to systematically plunder the BBC and nonbank financial companies during 1995-97 was attributable to an institutional breakdown of Thailand's macroeconomic policy-making regime. Throughout the 1947-88 period, when the Thai economy averaged more than six percent growth per annum, macroeconomic policy management was supervised by a technocracy that became influential on the back of military-authoritarian rule. Economic policymaking in Thailand had been "bifurcated" between clientelistic microeconomic management located in line ministries and autonomous and insulated macroeconomic management anchored primarily around the Ministry of Finance (MOF) and the BOT. This bifurcation was underpinned by an "implicit bargain" between the military and the technocracy. The technocracy was granted substantial latitude in steering macro-policy institutions and macroeconomic policies, whereas the military controlled the clientelistic line ministries and sectoral policies. The technocrats were vested with the autonomy and authority necessary to spur and

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<sup>2</sup> This section is adapted from Thitinan Pongsudhirak, *Crisis From Within: The Politics of Macroeconomic Management in Thailand, 1947-97*, unpublished PhD thesis, London School of Economics, 2001.

<sup>3</sup> Sor Por Ror I, *Raingarn phon kam wiroh lae vinitchai kor tejjing kiaokab satanakarn vikrit tang setthakit* [A Report on the Analysis and Assessment of the Facts Behind Thailand's Economic Crisis] (also known as "Nukul Commission Report"), Bangkok: Thailand Development Research Institute, 1998.

maintain macroeconomic growth and stability. The generals extracted sectoral rent from the maintenance and stability of macroeconomic growth.

As democratization made headway in Thailand from 1988, it empowered and emboldened political parties and elected politicians to penetrate and capture macro-policy institutions, shunting aside technocrats and undermining the military-technocracy bargain. Consequently, the MOF's and BOT's political insulation and macro-policy autonomy were eroded, as new coalitions of vested interests assumed electoral power. The MOF and BOT, as well as their related agencies such as the National Economic and Social Development Board (NESDB), became increasingly politicized and susceptible to clientelism. In turn, the growing empowerment of elected politicians and the marginalization of technocrats led to deleterious macroeconomic policy outcomes, as manifested first in financial sector distress sparked by BBC's demise and later in a full-blown macroeconomic crisis.

The domestic focus of crisis explanations waned soon after the Sor Por Ror I report was publicized. Why? First, the vested interests, particularly the oligopolistic commercial banks and their unviable debtors, stood against the reforms conditioned by the IMF assistance package. These reforms called for a wholesale restructuring of the financial sector, including the closure and liquidation of two-thirds of the 91 nonbank financial companies and the merger and consolidation of one-third of the banking sector. Second, the intellectual opponents of the IMF reforms along the lines of the "Washington consensus" provided the necessary backdrop in mobilizing public opinion against structural adjustments. Hence Thailand began to turn inward from mid-1998. And third, the Chuan government squandered its overwhelming mandate during its first six months of office, unable to persuade both the private sector and the public of the imperative of structural reforms. The upshot was that the pain of adjustment created an opportunity for Thaksin's populist agenda, a subject to which we shall turn in the last section. Before exploring Thailand's inward, anti-globalization drive, it is instructive to cite alternative explanations of the 1997 crisis in some detail.

### **Alternative explanations**

While this chapter has briefly highlighted adverse macro-policy consequences on institutional autonomy from democratization, and has taken a critical line against the corrupting role of certain individuals from both the public and private sectors, other perspectives on the Thai crisis differ. From a Marxist viewpoint, what happened to Thailand in the lead-up to July 1997 was merely another episode in "a global process of capital accumulation and cycles of crisis," emanating from "corporations...in the globalized capitalist system [which] produce and invest themselves into a crisis of overproduction, speculation and boom."<sup>4</sup> Underpinned by a seeming struggle among classes arising from a dialectical and unsustainable socio-economic hierarchy, the instability and contradictions intrinsic in Thailand's (and the world's) capitalist system were allegedly at fault.

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<sup>4</sup> Kevin Hewison, "Thailand's Capitalism Before and After the Economic Crisis" in Richard Robison, Mark Beeson, Kanishka Jayasuriya, and Hyuk-Rae Kim, eds., *Politics and Markets in the Wake of the Asian Crisis*, London: Routledge, 2000, 210.

The trouble with the Marxist line of interpretation is its all-encompassing, deterministic, and timeless assumptions, which lead to static and predictable conclusions. Economic booms fit its outlook, but so do busts and all economic events in between. Given their rigidly deterministic approach, Marxist standpoints on the Thai crisis lack dynamism in analysis and efficacy in practical policy implications. Because their explanatory utility is deterministic and path-dependent, they are unable to differentiate and explain convincingly the timing, depth and underlying dynamics of the Thai crisis, except to note that economic crises are inevitable in capitalist systems. But crises can also engender processes of “creative destruction,” to borrow from Schumpeter.<sup>5</sup> Booms can lead to busts just as frequently and fiercely as busts can beget adjustments and reforms, which can motivate and fuel a continual process of systemic self-renewal. Far from being inevitable, the Thai crisis was critically homemade. As previously stated, it arose from a shift in institutional arrangements, which adversely affected macroeconomic management, and by the empowerment of a coalition of vested interests encapsulated in political parties, the private financial sector, and the politicized technocracy.

While Marxist analysis of the Thai crisis has enjoyed limited currency, the interpretation that has claimed much attention and fame, with a concrete policy agenda in action, is the economic nationalist, “sufficiency” movement. Mirrored by the anti-globalization crusade abroad, Thailand’s “sufficiency” coalition, comprising NGOs, the academic left and the business interests who lost out in the aftermath of the crisis, has viewed Thailand’s economic adversity as having been imposed from *without*. Global financial markets, American economic hegemony, and the IMF’s and the World Bank’s sinister agendas to bring developing countries to their knees were, ostensibly, the culprits.<sup>6</sup> To these critics of globalization, Thailand was forced to open up from as far back as the mid-19<sup>th</sup> century, and has since been dominated by foreign capitalists and multinationals, whose Western-aligned interests are preserved and perpetuated by international financial institutions like the Fund and the Bank. As a consequence, the Thai economy has become too open and too dependent on exports and foreign investment, which makes it susceptible and vulnerable to the whims of powerful external economic forces. Escaping the jaws of foreign economic domination and subjugation requires a greater *inward* reliance on local resources, less on the fickle and unequal international economy.

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<sup>5</sup> Joseph A. Schumpeter, *The Theory of Economic Development*, Cambridge, MA: Harvard University Press, 1951.

<sup>6</sup> See Walden Bello, Shea Cunningham, and Li Kheng Poh, *A Siamese Tragedy: Development and Disintegration in Modern Thailand*, London: Zed Books, 1998; Nicola Bullard, Walden Bello, and Kamal Malhotra, “Taming the Tigers: The IMF and the Asian Crisis” in K. S. Jomo, ed., *Tigers in Trouble: Financial Governance, Liberalisation and Crises in East Asia*, London: Zed Books, 1998; Saet Siam [pseudonym], *Sabarut america: yutbasart krongkham penjao* [The United States of America: Strategy to Maintain Control], Bangkok: Kroangkarn Withitat, 1998; Bello, “The Asian Financial Crisis: Causes, Dynamics, Prospects”, *Journal of the Asia Pacific economy* 4 (1), 1999, 33-55; Chatthip Nartsupha, *The Thai Village Economy in the Past* Translated by Chris Baker and Pasuk Phongpaichit from original work published in Thai in 1984, Chiang Mai: Silkworm Books, 1999; Kamol Kamoltrakul, *Songkram karn ngoen: muang thai luea tae chen* [Financial Warfare: Thailand Has Only Its Name Left], Bangkok: Mingmit, 1999; Pittaya Wongtrakul, “Botnam” in Pittaya, *Wikrit lok: paen world bank yued prathet thai* [Introduction] in [World Crisis: The World Bank’s Plan to Seize Thailand], Bangkok: Kroangkarn Withitat, 1999; Pasuk Phongpaichit and Chris Baker, *Thailand’s Crisis*, Chiang Mai, Thailand: Silkworm Books, 2000.



The sufficiency coalition was crucially boosted in December 1997, when the Thai monarch in his annual birthday speech called for a “*por piang*” (“enough”) economy. Although the king’s wording might have been translated as “restraint” or “self-restraint,” scholarly critics of globalization and export-led, market-based neoclassical economic development—in an alliance with well-intentioned but misguided NGOs and social activists along with opportunist business interests (e.g. distressed bankers, delinquent debtors and over-leveraged firms)—gleefully hijacked the *por piang* exhortation and spun it first into a “self-sufficiency” and “self-reliance” campaign, which later became the “sufficiency” drive. A powerful reaction to the crisis and its impact, the sufficiency bandwagon promptly accumulated many local converts who were frustrated by and resentful of the deepening crisis. During the first year after July 1997, as the first section of the chapter has alluded to, domestic criticisms of the crisis were vented at the failures, corruption, and collusion among private bankers and financiers as well as elected officials and central bankers, crystallizing in the Sor Por Ror I report. But from mid-1998, as the economic reform momentum flagged and the pain of economic adjustment spread, the sufficiency campaign took the driver’s seat. It has gathered steam since, and was used as an ideological basis for the populist rise of wealthy telecommunications mogul Thaksin and his Thai Rak Thai party (TRT), which won the January 2001 lower house election by a landslide on a nationalist economic policy platform.

In fact, the sufficiency movement is not new. It harks back to a debate on “subsistence” from a generation ago before “globalization” became a buzzword. That debate centered on the alleged moral superiority of “subsistence” agriculture.<sup>7</sup> It was argued that traditional social relations and institutions of “risk-averse” farmers living on subsistence agriculture in halcyon agrarian economies broke down because of capitalist penetration, resulting in social decay and institutional deterioration of rural societies. Opponents of this view contended that farmers acted out of an expected utility perceived to be available from participating in the capitalist economy. Farmers were, in a word, “rational.”<sup>8</sup> They took part in the market economy because they wanted to benefit from it. In the Thai context, the subsistence debate has been reincarnated in the sufficiency movement. Whether Thailand should take its open economy into the future or withdraw it back into a more self-contained past is probably the most contentious question locally since the 1997 crisis.

On this subject, no one has written more than Pasuk and Baker.<sup>9</sup> Their prolific output has closely tracked Thailand’s economic development, especially during the pre- and post-crisis periods. Critical of neoliberal policies in particular and of neoclassical economics in general, they have pinned their critique of the technocracy-driven, outward-oriented economic development prior to 1997 to such ills as income disparity, urban sprawl, environmental degradation, labor migration from upcountry to Bangkok, prostitution, and AIDS. When the crisis struck, their focus shifted. The

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<sup>7</sup> James C. Scott, *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia*, New Haven, CT: Yale University Press, 1976.

<sup>8</sup> Samuel L. Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam*, Berkeley, CA: University of California Press, 1979.

<sup>9</sup> See <http://pioneer.netserv.chula.ac.th/~ppasuk/>.

eccentricity of capital flows, the “Washington consensus,” and IMF policies and conditionalities were to blame for 1997 and its aftermath. Ironically, Pasuk also has produced a long line of work, with indigenous researchers, on local corruption.<sup>10</sup> As she has neglected to square off the two bodies of publications between the apparent menace of both globalization from outside and corruption from within, Pasuk has been given to rail against globalization and corruption alternately without considering the weight of causation between them.<sup>11</sup>

This chapter aims to reconcile the two causes. It maintains that the Thai crisis was caused largely from within. The liberalization of the financial sector and the capital account, undertaken for primarily domestic reasons, increased Thailand’s vulnerabilities to external shocks and internal instability, but it need not inevitably lead to the 1997 crisis. The pivotal factor was the role of domestic politics and its impact on macroeconomic management. As with rational farmers who wanted to gain from the market economy by finding the means to acquire modern amenities—such as electric fans, air conditioners, refrigerators, telephone lines, televisions, stereos, electricity, piped water, motored vehicles, and so on—Thailand opened up to the forces of globalization because the country wanted to enjoy the benefits it brought, such as capital inflows, productive technology, and management know-how, not to mention information technology, overseas travel, luxury imports, satellite and cable television, and the like. Moreover, globalization is not a one-way street of exploitation. As foreign companies invested in Thailand prior to the crisis, a number of Thai firms also expanded abroad, including in the United States, United Kingdom, and China.<sup>12</sup>

What happened in 1997 was a lost opportunity, attributable to the unfavorable macroeconomic consequences of political change and to the role of corrupt individuals, as mentioned earlier. The ten-year period during 1988-97 following the semi-authoritarian administration of General Prem Tinsulanond was, in many ways, a wasted decade. Globalization and foreign economic forces did not take the decade away; Thai institutions and certain domestic vested groups squandered it. In and of itself, globalization was not a problem as long as the apportioning of its costs and the sharing of its benefits were effectively managed. As Puey Ungphakorn, the consummate technocrat in the 1950s and 60s, and his generation of technocrats demonstrated, the involvement of foreign capital can be harnessed for local benefit (e.g. World Bank loans to build infrastructure and the attached conditionalities to undertake needed reforms).

To be sure, there is a compelling case to be made for the anti-globalization movement. Pressing issues such as income disparity, rural poverty, and the urban-rural divide pose grave concerns, which should never be taken lightly. Certainly,

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<sup>10</sup> For example, Pasuk Phongpaichit and Sungsidh Piriyanaransan, *Corruption & Democracy in Thailand*, Chiang Mai, Thailand: Silkworm Books, 1994; Pasuk Phongpaichit, Sungsidh Piriyanaransan and Nualnoi Treerat, *Guns, Girls, Gambling, Ganja: Thailand's Illegal Economy and Public Policy*, Chiang Mai, Thailand: Silkworm Books, 1998; Pasuk Phongpaichit, Sungsidh Piriyanaransan, Nualnoi Treerat, and Kanoksak Kaewthep, *Utsabakam kan phanan*, [The Gambling Industry], Chiang Mai, Thailand: Silkworm Books, 2000.

<sup>11</sup> Pasuk Phongpaichit, “Corruption: Is There Any Hope At All?”, paper presented at the Prajadhipok Institute Workshop on Governance, Pattaya, Thailand, November 1999; Pasuk Phongpaichit, “Globalisation and Self-reliance”, 2000. Original draft of article written for *Newsweek*, < <http://pioneer.netserv.chula.ac.th/~ppasuk/> >.

<sup>12</sup> Pavida Pananond, *The Making of Thai Multinationals*, unpublished Ph.D. thesis, Department of Economics, University of Reading, 2001.

Thailand is beset by myriad economic inequities and social injustices. Hence it is somewhat tragic that the grassroots and liberal elements within the sufficiency movement have failed to make a fervent case for income redistribution, fiscal reforms, and the rule of law. Fiscal reforms, in particular, should include such disparity-bridging mechanisms as stringent taxes on inheritance, real estate and land ownership, and capital gains. The progressive income tax brackets should be made steeper. Tax collection ought to be overhauled, as the MOF-controlled excise, customs, and revenue departments are commonly known to be corrupt. These kinds of domestic economic and structural reforms would go a long way in solving the problems that have been alleged to stem from globalization. Because they are so bent on fending off the foreign influences from globalization, sufficiency proponents have unintentionally diverted attention and energy away from urgent reforms at home.

In addition, the sufficiency movement has inadvertently committed a second unintended mistake. Its fixation with globalization has provided a cushy refuge for the coalitions of interests, which have exploited globalization for their own ends at public expense. As the sufficiency coalition gathered pace, the same individuals who were instrumental in causing the crisis hid behind the anti-globalization shell and beside the poor enforcement of Thailand's weak legal infrastructure, biding their time until the crisis dissipated. By 2001, under the Thaksin government, a host of these individuals have been curiously exonerated, rehabilitated and resurrected as political appointees on the pretence that the 1997 crisis was caused by globalization and that "all concerned" were responsible in the domestic systemic failures.

### **Post-crisis prospects: Populism and "Thaksinomics"**

Whatever their intentions, the rise of the sufficiency movement has been profoundly consequential for Thailand's post-crisis economic policy direction. In the January 2001 general election of the lower house, the Chuan Leekpai-led Democrat Party was rejected by voters en masse for having complied with some of the IMF-mandated reforms. For the first time in Thai political history, the Thai Rak Thai party under Thaksin garnered an outright majority in the lower house, thanks to subsequent mergers with two junior coalition partners, namely Seritham and New Aspiration Party. The TRT's landslide victory relied on a populist policy platform. It won a massive following by pledging a raft of credit injections and public expenditures, under the rubric of so-called "Thaksinomics", including rural debt suspension, investment funds for all 77,000 upcountry villages, national healthcare at minimal costs, a financial sector vehicle to offload more than Bt1.3 trillion of non-performing loans, and the establishment of banks to lend to small- and medium-sized enterprises and retail entrepreneurs under lenient terms. These deficit-spending programs constituted a bonanza of government handouts in an ostensible effort to boost local consumption and thereby spur economic recovery. The Thaksin government indicated that its greater reliance on consumption and domestic demand would enable Thailand to regain economic sovereignty lost to the globalization of economic forces.

Yet economic growth in 2001 came in at just 1.5 percent. As the costs of its populist policies roll in, the government of Thaksin Shinawatra has found itself increasingly cash-strapped. The planned 2001-2002 budget of Bt 1.07 trillion

envisages further deficit spending to the tune of Bt 200 billion, or four percent of GDP, a slight deficit increase on the previous year. Of the next fiscal year's budget, twenty-one percent is pegged to investment, with seventy percent reserved for fixed expenditures, mainly civil service salaries, pensions, and benefits. The remainder is allotted for public debt financing. However, as public debt has trebled since 1997 to 58.5 percent of GDP, or Bt 2.9 trillion, in the face of subdued revenue from lower economic growth, the Thaksin administration has taken an overly optimistic view of its debt financing burdens. Fiscal prospects for 2002 suggest that Thailand's public debt will reach 65 percent of GDP.<sup>13</sup> A sharp fall in revenue and/or adverse external shocks, such as a precipitous rise in world interest rates, would stretch the budget to a breaking point. Indeed, Thailand now faces a looming fiscal crisis unless the Thaksin government reins in its promises of future spending. To be sure, the country's public debt is not all that alarming in a comparative context. Most developing and developed countries have tolerated much higher domestic debt. But for a country that has long benefited from macroeconomic discipline underpinned by fiscal prudence, the threefold increase of Thailand's domestic debt in the past five years merits serious concern.

More alarmingly, Thaksin has surrounded himself with individuals who were integral in paving the road towards economic collapse in 1997. A media mogul, the owner and manager of the *Poojadkarn* (Manager) Group, is a close Thaksin associate. This mogul was involved in the collusion for bogus loans from BBC in the mid-1990s. With a new lease of life from Thaksin, however, his media group's soured loans have been revived, and the group has received fresh credit from state-owned Krung Thai Bank. He also has received lucrative contracts to operate programs on state-run television.<sup>14</sup> In addition, unsavory elements from the Banharn and Chavalit administrations, which manipulated share prices on the local bourse and defrauded BBC in the mid-1990s, have re-entered the political limelight in Thaksin's cabinet. The central bank governor, who was instrumental in allowing BBC to deteriorate beyond repair, is now a chief economic advisor of the Thaksin government. Alas, it appears that the coalition of vested interests who brought on Thailand's economic crisis have lined up behind Thaksin and the TRT. As he has consolidated his control of the lower house, Thaksin is now poised to ram through his government's spending spree to the longer-term detriment of stable economic growth and stability in Thailand.

## Conclusion

Domestic politics laid behind Thailand's economic crisis in 1997, whereas external factors assumed a complementary role. A coalition of commercial bankers, central bankers, and elected politicians colluded to defraud the BBC, provoking financial sector instability that ended with the baht devaluation and a general economic crisis. The aftermath of the crisis left a void for anti-globalization proponents to fill, including the academic left and NGOs, who unwittingly provided an intellectual

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<sup>13</sup> *The Nation*, 2 January 2002, 1B.

<sup>14</sup> See *Bangkok Post*, 7 March 2002, 1.

foundation for Thaksin and the TRT to exploit. As the Thaksin administration took office from January 2001, its populist policies have jeopardized Thailand's future fiscal health but have failed to deliver impressive growth rates as promised. At the same time, the Thaksin government quickly became the rehabilitation den for those who were involved in the lead-up to the 1997 crisis. This has led some observers to question whether Thaksin has simply made errors of judgment in appointing unsavory individuals to run his government. Others question whether Thaksin's coalition of supporters is merely a systematic and well-planned reincarnation of the individuals who led the Thai economy to ruin in the first place.





## CHAPTER 5

### GLOBALIZATION AND ECONOMIC GOVERNANCE IN TAIWAN

YUN-HAN CHU AND PEI-SHAN LEE

#### **Introduction: The Development Model in Crisis**

The Newly Industrializing Economies (NIEs) of East Asia, including Taiwan, South Korea, Hong Kong and Singapore, have presented their brand of economic development as a paragon for other developing economies. These so-called “developmental states” had sustained impressive growth and survived external economic shocks until the onset of the 1997-98 Asian financial crisis. However, the financial storm blew the lid off the structural weakness of South Korea and ASEAN countries. Japan’s sluggish reactions to its financial sector woes also discredited the economic governance capacity of the East Asian developmental state.

Some scholars<sup>1</sup> began to suggest that this economic model was in the decline, pointing to its failure to cope with the demands and pressure of globalization. Others<sup>2</sup> demystified the model, stating that there was no “miracle” in East Asia; it was just very high levels of factor inputs that were supplied by high domestic savings and an abundant labor force. Doubts emerged regarding the prospect of sustained growth under this model.<sup>3</sup> In addition to the skepticism of foreign observers and advisors from international lending institutions, neo-liberal advocates within these countries repudiated the developmental state, urging a rolling back of the government and a reduction of market-distorting intervention.

All of this has raised some vexing questions. Does the dawn of the twenty-first century foreordain the triumph of “neo-liberalism” and the demise of East Asian developmentalism?<sup>4</sup> Is an alternative set of models and ideas for national economic management needed for East Asian countries to enter and excel in the age of globalization? Would the “lost decade” of the 1980s in Latin America be duplicated in East Asia?<sup>5</sup> Could the East Asian NIEs re-engineer their governance model to fully

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<sup>1</sup> Meredith Woo-Cumings, “Introduction: Chalmers Johnson and the Politics of Nationalism and Development,” in Meredith Woo-Cumings, ed., *The Developmental State* (Cornell: Cornell University Press, 1999), pp.1-31.

<sup>2</sup> Paul Krugman, “The Myth of Asia’s Miracle,” *Foreign Affairs*, 73(1994): 63-75.

<sup>3</sup> Nicholas Kristof, “Asian-style Capitalism Giving Way to the Free Market,” *New York Times*, 17 January 1998.

<sup>4</sup> Lee, Pei-shan, “Regime Transition and Economic Governance: The End of Developmental State in Taiwan?” Paper presented at the 7<sup>th</sup> Annual Meeting of the Taiwanese Political Science Association, National Sun Yat-sen University, Kaohsiung, Taiwan, 9-10 December 2000.

<sup>5</sup> Paul Hirst and Grahame Thompson, *Globalization in Question* (London: Polity Press, 1999), p.241.

globalization? Would the “lost decade” of the 1980s in Latin America be duplicated in East Asia?<sup>5</sup> Could the East Asian NIEs re-engineer their governance model to fully reap the benefits of globalization, while smoothly executing concurrent domestic adjustments? Taiwan, which weathered the regional crisis relatively unscathed, has shown that the clash between globalization and the East Asian economic model need not be a zero-sum game. In the face of a tremendous global transformation, Taiwan has shown its economic resilience and made a successful leap into high-technology industries. The Kuomintang (KMT), Taiwan’s ruling party for decades until it lost the presidency in 2000, has taken an unorthodox approach mitigating adverse external influences and cushioning the distributive impacts of globalization. It has taken advantage of opportunities provided by the formation of transnational production networks, while proceeding with financial deregulation and economic liberalization at its own pace.<sup>6</sup> Economic governance in Taiwan by and large maintains a state-led but market-friendly approach whose policy implications may be of some help in reorienting the oversimplified polemics in the “globalization versus developmental states” debate.

### **Challenges of Globalization since the 1985 Plaza Accord**

The Plaza Accord in 1985 can be viewed as a milestone in the globalization process. Through the accord, the U.S. government set an implicit target zone of currency fluctuation for East Asian countries in a bid to bring down what was seen as an overvalued dollar. This stirred a wave of monetary realignments in the region. Taiwan was compelled to drastically appreciate its currency in a short period of time. In 1987-89, the New Taiwan Dollar appreciated about 50 percent. This triggered a set of structural changes that broke with the established mode of capital accumulation and economic governance.

First, the monetary realignment propelled a sharp increase in land prices and manufacturing costs. The rising costs afflicted labor-intensive industries and further weakened their international export competitiveness. Second, the United States demanded that Taiwan liberalize its trade policies and open up its domestic markets in banking, securities, equities and futures. From 1985 to 1988, Taiwan was incessantly pressured to lower tariffs and dismantle non-tariffs barriers such as import restrictions and export subsidies in a series of trade negotiations with the United States. Third, Taiwanese firms, particularly those in traditional industries, had to opt for overseas outsourcing and relocation via foreign investment to reduce their costs. This precipitated a massive wave of capital outflows from Japan, Taiwan, and South Korea. According to a survey,<sup>7</sup> cumulative outward foreign direct investment (FDI) from

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<sup>5</sup> Paul Hirst and Grahame Thompson, *Globalization in Question* (London: Polity Press, 1999), p.241.

<sup>6</sup> Elizabeth Thurbon, “Two Paths to Financial Liberalization: South Korea and Taiwan,” *The Pacific Review* 14(2001): 241-68.

<sup>7</sup> Peter Dicken and Henry Wai-chung Yeung, “Investing in the Future: East and Southeast Asian Firms in the Global Economy,” in Kris Olds et al., eds., *Globalization and the Asia-Pacific: Contested Territories* (London: Routledge, 1999), pp. 111-22.



South Korea and Taiwan largely concentrated on Asia. By 1995, 43 percent of South Korea's FDI and 39 percent of Taiwan's went to other Asian countries.<sup>8</sup>

Developmental states in the region were thus not only preoccupied with attracting FDI from industrialized countries, but more importantly, with helping their own firms map out strategies for securing a position in global (or regional) production chains. The formation of the global commodity chain not only presented fresh opportunities and challenges to firms, but also acted as a crucible for the long-entrenched neo-mercantilist practices that developmental states had adopted throughout most of the post-war era. Meanwhile, the requirements for entry into GATT and later, the WTO, forced Taiwan to abandon established policy instruments in the name of trade liberalization. On the financial front, the state's control of the financial sector, another important policy regime buttressing national development, came under threat. Under U.S. pressure, the Kuomintang government began taking steps to liberalize the banking sector beginning in the mid-1980s. In order to join the WTO, Taiwan agreed to liberalize its banking and security industries and allowed foreign participation in domestic markets in the 1990s. Foreign exchange controls and restrictions on capital mobility were also relaxed. The imposition of such financial liberalization measures has made East Asian economies more exposed to external shocks in today's integrated global financial market. Although its causes have been hotly disputed, the 1997-1998 Asian financial crisis exposed this structural vulnerability as countries embraced the volatile mobility of short-term capital.

Under these drastically shifting circumstances, Taiwan faced several key challenges:

- Adapting its traditional export-oriented industrialization strategy quickly and flexibly.
- Enabling domestic firms to carve out a niche in the new global division of labor.
- Coping with further liberalization pressure from pro-global forces.

### **Taiwan's Unorthodox Approach to Economic Governance**

Despite the current of economic neo-liberalism from the early 1980s on,<sup>9</sup> Taiwan's economic bureaucracy did not rush to wholly dismantle its governance model. Instead, it has carried out a complex yet steady adaptation to the challenges and opportunities of a highly international economy.<sup>10</sup> Through a constant upgrading and renewal of its industrial portfolio throughout the 1980s and 1990s, Taiwan has maintained its export competitiveness by leaping into high-tech industries. In addition, through a cautious and developmental-oriented approach to financial liberalization, Taiwan's financial sector remained under sound governance and more

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<sup>8</sup> Ibid, p.113.

<sup>9</sup> See Thomas Biersteker, "The 'Triumph' of Liberal Economic Ideas in the Developing World," in Barbara Stallings, ed., *Global Change, Regional Response* (New York: Cambridge University Press, 1995).

<sup>10</sup> Yun-han Chu, "Re-engineering the Developmental State in an Age of Globalization," Paper delivered at a conference on "Taiwan as a Developmental Model for the 21<sup>st</sup> Century," School of Oriental and African Studies, University of London, London, September 21-22, 2000.

insulated from the sudden external shocks derived from capital mobility and the regional currency crisis compared to other economies in the region, such as South Korea and Thailand.

### **Industrial Governance and the Quest for High-Tech Success**

Despite a sharp currency appreciation during the late 1980s and the resulting rise in labor and land costs, as well as growing environmental concerns and competition from ASEAN and China in labor-intensive industries, Taiwan has managed to maintain its international competitiveness through human resource development, technological upgrading and overseas outsourcing.<sup>11</sup> Taiwan's high-tech industries grew substantially from 27.4 percent of manufacturing production in 1986 to 43.4 percent in 1997. In 1995, Taiwan surpassed Germany to become the world's third-largest exporter of information technology (IT) products, including semi-conductors, computers, telecommunications equipment, and computer software. The state has played a critical role in pushing and enabling traditional labor-intensive industries to invest, upgrade, innovate and internationalize through long-term policy guidelines designed and implemented by its economic bureaucracy. In response to the intense hi-tech competition, the state has acted as the guiding force in a national effort to identify trajectories of technological diffusion in order to better link the domestic production with the global market demands.

What made this round of adjustments different from previous industrial upgrading stems from the changing nature and dynamics of the global production regime. On one hand, the increased fragmentation of the production process across borders complicated the design and implementation of national industrial policy. On the other hand, the IT revolution enhanced the predictability and reliability of the division of labor across the firms, further facilitated the globalization process and gave birth to new forms of collaboration, integration, and collective action. Under the globalization of the supply chains, it became clear that firms must exploit their location-specific advantages<sup>12</sup> and focus on moving upward into more complex segments of the global value chain. The economic bureaucracy was pressured to close the digital divide that would determine who will leap forward or be left behind in the new game of global competition.

In the 1990s, the new transnational production network and the IT revolution prompted the planning technocrats in Taiwan to incubate a new generation of firms for the fast-paced world of high-technology production. The essence of this game of catch-up is to upgrade in the subcontracting system from original equipment manufacturing (OEM) supply to own-design manufacturing (ODM), and even to own-brand manufacture (OBM), in order to internalize the imported technologies and build on them. In a first step, planning officials undertook vigorous measures to mobilize the overseas Chinese science and engineering community. The government sponsored the Chinese Institute of Engineers in USA, which was originally created in 1917 and renamed to CIE/USA in 1977, under which Chinese Americans who work

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<sup>11</sup> Ibid.

<sup>12</sup> See David G. McKendrick et al., *From Silicon Valley to Singapore* (Stanford: Stanford University Press, 2000).

at national laboratories, NASA, top universities and leading industrial groups such as Bell Labs, Dupont and IBM were brought together for regular meetings and workshops to solicit policy suggestions for Taiwan's industrial development. Through the network, the government appointed prominent senior executives and scientists to the "Science and Technology Advisory Group" (STAG), founded in 1979, directly under the premier. Members of STAG advise on science and technology policy and help planning officials formulate long-term development plans.<sup>13</sup> In addition, the Institute for Information Industry (III), a public think tank established in 1979, has specialized in policies on the development of Taiwan's information infrastructure.

Beginning in 1979, the National Science Council (NSC) was entrusted with the development and management of the Hsinchu Science-based Industrial Park and other science park projects. Foreign investors and high-tech startups were invited to set up shop with easy access to the parks' R&D facilities, brainpower, and the financing of state-owned development banks. Tax deductions, duty-free import of key equipment and exemption from commodity taxes for exports were also provided. By the end of 1999, the park hosted 292 high-tech firms with gross revenue of NT\$651 annually. The government also made heavy investments in basic scientific research relating to the targeted industries. The most notable fruits of this investment are seven large-scale science projects launched since 1986, including the National Space Project; the National Nano Device Laboratory, involving the research and development of semiconductor devices and materials; the National Synchrotron Radiation Research Center, dealing with R&D in high-energy physics; and the National Super Computer Center.<sup>14</sup>

Moreover, since the late 1980s, the government has relaxed restrictions on investment outflows to foster business expansion abroad, particularly in ASEAN countries. In addition to private investment, an official development assistance program emulating that of Japan was set up in the late 1980s to encourage trade and investment in the Asia-Pacific region. A "Southward Policy" was adopted to help Taiwanese companies set up operations in ASEAN countries to lower labor and environmental costs, instead of investing in mainland China, due to the security concern in a deeper integration with the latter. Taiwan also has hammered out a range of measures to attract foreign investment into strategic sectors and to incubate strategic alliances between local and transnational firms in a bid to obtain foreign technological know-how. The Steering Committee of the Industrial Cooperation Program under the Ministry of Economic Affairs (MOEA) identifies technology transfer opportunities for domestic industries and then makes decisions on big-ticket public-sector procurement projects in areas such as electric power, waste incineration, aerospace and national defense based on the prospects for technology transfer or technological cooperation. Through these efforts, global firms such as Hewlett-Packard, Boeing, General Electric, Lockheed Martin, Northrop Grumman, Raytheon, Dassault, and Thomson-CSF, have agreed to do business with the MOEA.<sup>15</sup>

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<sup>13</sup> See Yun-han Chu, 2000.

<sup>14</sup> See Yun-han Chu, 2000.

<sup>15</sup> See Yun-han Chu, 2000.

Lastly, a policy network in high-tech industries was created to link up industrial planning agencies, state-owned industrial banks and investment funds, private capital, high-tech start-ups, public research organizations, universities, foreign consultants, and Chinese-American scientists and entrepreneurs. This consultative mechanism has laid a foundation for coherent industrial governance under which collective problems within industrial sectors are solved through coordination across agencies. The most prominent examples for the success of public-private coordination in the high-tech industry were the creation of United Microelectronics Corporation (UMC) in 1980 and Taiwan Semiconductor Company (TSMC) in 1987. The UMC has become the foundry technology leader in the 1990s, while TSMC is now the world's largest independent semiconductor foundry. Their creation and development was sponsored by government's direct financial inputs. Up until now, the government still owns 10% of TSMC's share. In addition to finance, in terms of technology, government commissioned Industrial Technology Research Institute (ITRI) to help purchase and transfer foreign technology, then transferring to private firms as technology matured for manufacturing. ITRI has also served to recruiting and training local scientists and engineers for the industry. The success of Taiwan's high-tech catch up is completely by design, not by chance.

From the above analysis, we can see that an intra-state policy coordination mechanism was in shape since the 1980s to promote strategic industries through fiscal incentives, the channeling of investment outflows, attraction of foreign investment and technology transfer, and by laying the foundations for infrastructure, R&D, funding, etc. During the 1990s, more sector-specific consultative bodies were set up and incorporated into the industrial policy apparatus under which officials from related agencies, research institutions and industrial representatives could work together to solve problems. This evolutionary institutional adjustment has created a coherent system of industrial governance for both traditional and high-tech industries.

Although many countries have tried to emulate this model of industrial governance for specific sectors, its success depends on the involvement of state institutions and institutionalized links between the public and the private sectors. As David G. McKendrick et al put it,<sup>16</sup> "many are called" to move along with technological changes, but "few are chosen" to succeed in the industrial upgrading.

### **Financial Regulatory Governance**

The regional financial crisis of 1997-99 put the globalization of financial markets in the spotlight. It served as a warning: that the volatility of short-term transnational capital and the proliferation of new financial instruments, if not properly regulated, could hurt economies, stir political upheaval, and imperil regional stability. Taiwan weathered the crisis, however, and this puzzling exception merits scrutiny of Taiwan's financial governance.

From the mushrooming scholarship on this issue,<sup>17</sup> can be drawn some policy implications which suggest that the orthodox (neo-liberal) approach to financial

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<sup>16</sup> See David G. McKendrick et al., p.252.

<sup>17</sup> See Yun-han Chu, 1999; Stephan Haggard, *The Political Economy of the Asian Financial Crisis* (Washington, D.C.: Institute for International Economics, 2000); Gregory Noble and John Ravenhill, "The Good, the Bad, and the Ugly?"

liberalization is not the only way. Neo-liberal forces advocate removal of capital controls and exchange rate maneuvering in developing countries, as embodied in the “Washington consensus” shared by the United States, the International Monetary Fund (IMF) and the World Bank.<sup>18</sup> The prevailing perspective on financial liberalization suggests a set of standard procedures and rules for reform, including prudent regulation, transparent accounting and supervision, an orderly sequencing of capital account liberalization, and corporate restructuring.<sup>19</sup> Nevertheless, is this “one-size-fits-all” kind of institutional reform really a panacea for developing countries in the course of financial liberalization?

Taiwan’s experience suggests not. First, despite the trend toward an integrated global financial market, the government has managed to control the volatility of cross-border short-term capital movements for the sake of monetary and financial stability. Moreover, Taiwan has had its own agenda and policy sequence for liberalization, which gave priority to the deregulation of domestic capital markets over internationalization. When the government decided to open up the stock market to foreign investors in 1991, it set a strict investment cap and raised it only gradually.<sup>20</sup> In this incremental approach to liberalization, the government has kept financial stability and industrial development as top priorities. Therefore, liberalization measures were taken only with the concurrent introduction of re-regulation to safeguard domestic financial and price stability, and insulate Taiwan from excessive external shocks.<sup>21</sup>

Second, as to the decision-making structure of its financial governance, the government has stressed the importance of strengthening financial supervision. Supervisory agencies include the Central Bank of China (CBC), Ministry of Finance (MOF) and the Central Deposit Insurance Corporation (CDIC). The autonomy and special status of the CBC is of particular importance. The CBC falls under the executive purview of the president and is entrusted with an extensive regulatory authority over the banking sector and capital market.<sup>22</sup> The CBC can overrule the MOF over the timetable and degree of financial deregulation and internationalization. Indeed, the CBC’s conservative approach to capital account liberalization has sometimes been at odds with the MOF, which is generally more in favor of liberalization. But given its superior position in the state apparatus, the CBC has been able to overrule the MOF and maintain its extensive regulatory authority over the banking sector and capital markets. For example, although restrictions on private holdings of foreign exchange were removed in the late 1980s, the CBC soon set up

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Korea, Taiwan and the Asian Financial Crisis,” in Gregory Noble and John Ravenhill, eds., *The Asian Financial Crisis and the Architecture of Global Finance* (New York: Cambridge University Press, 2000); Jia-Dong Shea and David C.Y. Sun, “Financial Crisis and the Prudential Regulation of Financial Institutions,” in Gordon de Brouwer and Wisarn Pupphavesa, eds., *Asia-Pacific Financial Deregulation* (London: Routledge, 1999); Elizabeth Thurbon, 2001, pp.241-68.

<sup>18</sup> Iyanatul Islam and Anis Chowdhury, *The Political Economy of East Asia: Post-crisis Debates* (Oxford: Oxford University Press, 2000), pp. 208-11.

<sup>19</sup> See Alison Harwood and Bruce L.R. Smith, eds., *Sequencing? Financial Strategies for Developing Countries* (Washington, D.C.: Brookings Institution Press, 1997).

<sup>20</sup> Yun-han Chu, “East Asia: Developmental Challenges in the 21<sup>st</sup> Century,” Manuscript, 2001.

<sup>21</sup> See Elizabeth Thurbon, 2001, p. 251.

<sup>22</sup> See Yun-han Chu, 1999, pp. 189-93.

monitoring scheme and intervened in the spot market when necessary to prevent excessive short-term currency fluctuations.<sup>23</sup>

The CBC also monitors fluctuations in capital market from time to time by intervening to stabilize the exchange rate in its targeted zone. When the 1997 Asian crisis unfolded, the CBC initially tried to resist the market pressure of devaluation by spending more than US\$7 billion. However, under the overwhelming speculation pressure and market expectation for depreciation, a high-level meeting among the president, premier, and the CBC governor was convened and decided to allow the NT dollar to float. The Taiwan currency fell steeply from 25:1 US dollar before the crisis down to 35:1 after it. After this drastic realignment, however, the practice of managed float has resumed.

Neo-liberals may disapprove, or even condemn this practice as a “dirty floating” currency regime.<sup>24</sup> However, it has helped maintain monetary stability and prevented a currency crisis from happening.

The lessons learned from the case of Taiwan attests to a different model of financial governance. Financial liberalization must proceed with concurrent efforts on re-regulation rather than wholesale deregulation. A country should choose a pace of financial opening in accordance with its tolerance for short-term fluctuation. The strengthening of Taiwan’s financial governance involves the comprehensive functioning of regulation, supervision, examination, and enforcement on the part of regulatory agencies, as well as the internal governance of financial institutions on risk management. More importantly, financial governance has been conducted in a macro- and development-oriented style aiming for diverse policy goals.

### **Prospects for the Developmental State in Taiwan**

Taiwan is an important case in the debate over national responses to the challenge of globalization. It has shown that the clash between globalization and national development need not be a winner-take-all contest. The engagement of states in the process of globalization is, in fact, critical to ensure proper overhaul of legal and regulatory systems, re-engineering of governance structures, and maintenance of national competitiveness. In the process of negotiating with the global economy, some components of the state apparatus may well be transformed. Finance ministries, central banks, or other institutions may be strengthened rather than weakened.<sup>25</sup> In the case of industrial policy—the core functioning ingredient of the developmental state, the Taiwanese government has managed to re-engineer the institutions of industrial governance while enacting gradual neo-liberal reforms. Globalization and state strength may not be mutually exclusive. Depending on national orientations and institutional capabilities, globalization may prompt developmental states to move on to different trajectories of adjustment or transformation.

As the corollary, the demise thesis regarding the future of developmental states

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<sup>23</sup> See Yun-han Chu, 2001.

<sup>24</sup> Jeffrey A. Frankel, “No Single Currency Regime Is Right for All Countries or at All Times,” Working Paper 7338, National Bureau of Economic Research, 1999.

<sup>25</sup> Saskia Sassen, “Embedding the Global in the National,” in David A. Smith, Dorothy J. Solinger and Steven C. Topik, eds., *States and Sovereignty in the Global Economy* (London: Routledge, 1999).

may not be tenable as globalization per se is not in antagonism to the functioning of the state, and as shown from Taiwanese state's successful negotiation with the trend of globalization. State may continue to intervene in the market, not to shield the country from global market forces, but to link it to the global market on a favorable term. This is exactly an option some experts promote: selective globalization rather than de-globalization.<sup>26</sup> The model of developmental states should not be jettisoned for wrong reasons.

Even if a developmental state shows a capacity to foster national development by selectively and gradually coping with the challenges of globalization, threats to governance may come from elsewhere. They may stem from a lack of institutional flexibility and political responsiveness, or permeation of structural corruption from within.<sup>27</sup> In other words, the prospects for developmental states will be largely contingent on domestic politics and institutional arrangements. In the case of Taiwan, to be more specific, it faces challenges on two fronts: how to restructure democratic governance and build up a social safety net system to accommodate those left at a disadvantage by global competition.

Taiwan's democratization since the mid-1980s has undermined its solid foundation of economic governance. The open competition for votes in democratic Taiwan often results in politicians attempting to ingratiate themselves with specific constituencies by supporting short-term expansionary and distributive policies. This short-sightedness can lead to fiscal deficit, financial rot, and pork-barrel legislation. In the worse case, the insulated economic bureaucracy could be sandbagged by the politics of distribution.

Constructing a new institutional foundation for sustained growth under democracy is therefore an impending challenge for Taiwan. The task involves maintaining a delicate balance between developmental logic and distributive politics; between policy responsiveness and democratic accountability.<sup>28</sup> The prospects for the maintenance of sound economic governance in Taiwan depend on how well it copes with the challenges of democratic governance.

An interesting and vital question concerns whether the Democratic Progressive Party (DPP), which came to power in May 2000, will fundamentally change the essence and structure of economic governance in Taiwan. As a longtime opposition party, the DPP is founded on an intrinsic distrust of the established bureaucracy and hostility to the developmental model. Will it abandon the developmentalist approach and carry out a protracted and politically motivated neo-liberal restructuring to eradicate Kuomintang influence in the economy? It remains to be seen.

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<sup>26</sup> See Islam and Chowdhury, 2000, pp. 211-5.

<sup>27</sup> Stephan Haggard, "Governance and Growth: Lessons from the Asian Economic Crisis," *Asian Pacific Economic Literature*, 13(1999): 30-42.

<sup>28</sup> Pei-shan Lee, "Political Institutions and Economic Governance," *Journal of Social Sciences and Philosophy*, 14(2002): 1-31.







## CHAPTER 6

### **WHERE DRAGONS FALTER: Labor Politics and the Democratization of Civil Society in South Korea and Taiwan**

**PAUL G. BUCHANAN AND KATE NICHOLLS**

#### **Introduction**

One of the most under-researched aspects of the recent literature on democratization is labor politics. Perhaps because of the importance of political party elites in (re)constituting electoral government in previously authoritarian societies, and perhaps because the imperatives of market globalization appear to make concerns about organized labor irrelevant except as obstacles to be overcome on the way to labor market “flexibilization,” attention to the role of organized labor in democratizing societies has been confined to labor specialists, a few comparative politics scholars and government agencies. As the intelligence community well understands, labor politics matter for many reasons. This is particularly so in transitional societies, and the cases of South Korea and Taiwan are particularly illuminating.

Labor politics do not occur in a vacuum, especially during the transition from authoritarian regimes to democracy. The birth, rebirth, resumption, regeneration or escalation of labor movement activity are all aspects of the resurrection or regeneration of civil society. The issue is one of claiming expanded citizenship rights. These rights may be claimed not only by organized labor but by other disenfranchised segments of the population. These latter groups are not defined by their relations in production and consequently do not occupy a position of strategic importance in the economic apparatus—and in the concerns of policy-makers. Yet given its structural gravity in the economy and the common cause it shares with these other groups, organized labor has the potential to be a leading agent for the substantive democratization of society as a whole.

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Korea and Taiwan represent two “most similar” cases based upon their structural and political similarities but there are key differences with regards to their labor politics.<sup>1</sup> Although both are relatively small export platforms with a rigid anti-communist (and slowly eroding Cold War) political orientation, in important respects they represent significantly different approaches towards labor politics. South Korean unions are inserted as opposition pressure groups in the political system with increasing economic presence, while the Taiwanese labor movement has been molded by its history as the child of the Kuomintang (KMT) party.

### Case Study and Method

South Korea and Taiwan can be considered “most similar” cases due to one general structural similarity and several socio-political similarities.<sup>2</sup> On a structural plane, both countries are inserted in the global market as value-added commodity export platforms, with similar industrial, services, and finance sectors and a shrinking agricultural base. Both have large urbanized populations, including a sizable middle class and organized labor force. Both have shifted over the last twenty years from labor-intensive to capital-intensive manufacturing.

Politically, both witnessed top-down transformations from authoritarianism to procedural democratization in the late 1980s and early 1990s. Elections were used as part of the liberalization process and in both cases it took over a decade for the consolidating election (in which power changed hands) to occur. Both have histories of Japanese colonial rule. Both are fragments of nations divided in the late 1940s by the ideological confrontations of the Cold War. Both are staunchly anti-communist and as a result both are firm U.S. allies that largely depend on America for their foreign trade and defense. Both have had at least two relatively transparent, free and fair national presidential and parliamentary elections during the last decade, with presidential power rotating between parties in the last round of elections in the late 1990s. Both have traditionally placed limits on the labor’s freedom of action and subordinated it politically and economically to business.<sup>3</sup>

Korea and Taiwan can be singled out from other countries in Asia such as Singapore, Hong Kong, Malaysia, Vietnam or the Philippines (to say nothing of North Korea, Japan or the People’s Republic of China) because none of these nations have both the structural and political similarities mentioned above. Some may have similar economic relations with the global market but are simply not democratic in even the loosest sense of the word (Singapore, Malaysia, Hong Kong). Others simply do not have the same levels of development (the Philippines, Thailand) or are far more developed (Japan). Some simply are neither

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<sup>1</sup> Theodore H. Meckstroth, “‘Most Different Systems’ and ‘Most Similar Systems’: A study in the Logic of Comparative Inquiry,” *Comparative Political Studies*, V.8, N.2 (July 1975): 132-157.

<sup>2</sup> On “most similar” case method see Adam Przeworski and Henry Teune, *The Logic of Comparative Social Inquiry*. NY: John Wiley: 1970.

<sup>3</sup> An explicit and excellent effort to outline the structural and political bases for the comparison of Korean and Taiwan is made by Karl J. Fields, *Enterprise and the State in Korea and Taiwan*, Ithaca and London: Cornell University Press, 1995: 1-27.

democratic nor capitalist (North Korea, Vietnam), while China is a huge state transiting to capitalism under the aegis of continuing one-party authoritarian rule.

South Korea and Taiwan also exhibit long traditions of state corporatism in the field of interest-group administration.<sup>4</sup> These systems reinforced an ethos of hierarchy, exploitation, managerial paternalism and patriarchy in both nations.<sup>5</sup> Yet there were differences between them. On the one hand, the combination of an Asiatic mode of production (premised on super-exploitation of human labor) and modern versions of oriental despotism (including authoritarian workplace relations between employers and employees) gave rise to what can be described as despotic labor politics in South Korea.<sup>6</sup>

In the numbers of hours worked; in the risks to which they were exposed in the workplace; in the number of fatal injuries they incurred; in the arbitrary and capricious manner in which they were treated (especially women); in the physical repression to which they were subjected by their bosses and the state; and in the gross limitations on their rights and freedoms as both workers and citizens, before the 1980s the Korean working classes suffered under labor relations regimes that have few equals in terms of their authoritarian nature.<sup>7</sup>

In contrast, although also profoundly paternalistic and hierarchical in production and in terms of organized labor's relationship to the dominant Kuomintang, and selectively repressive at times, the Taiwanese version was much more focused on securing labor cooperation along with its subordination. This had more to do with the concerns of the exiled mainland Chinese elite in securing Taiwanese acquiescence to their rule than with securing working class consent per se. At any rate, Taiwanese labor politics has been far less coercive than that of South Korea; more paternalistic than despotic. In any case, neither approach allowed for union autonomy, independence or freedom of action, characteristics that would be essential for democratic consolidation to succeed.

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<sup>4</sup> Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton, NJ: Princeton University Press, 1990: 27 (Korea), 27, 228, 253, 294-95 (Taiwan).

<sup>5</sup> In emphasizing the repressive aspects of authoritarian labor relations in these two cases, we clearly echo the argument of Frederic C. Deyo, *Beneath the Miracle: Labor Subordination in the New Asian Industrialism*, Berkeley: University of California Press, 1989.

<sup>6</sup> According to Jong-Il You, the complete political exclusion of labor, the gross restrictions on its freedom of action, its repeated and severe repression, and the virtual absence of a social welfare system (to include no minimum wage until 1988) were coupled with "the managerial culture of authoritarian paternalism—authoritarian oppression for labor discipline and paternalistic cooptation for worker motivation—and the managerial practice of personalized hierarchical control." Jong-Il You, "Changing capital-labor relations in South Korea," in Juliet Sehor and Jong-Il You (eds), *Capital, the State and Labor*. Aldershot: Edward Elgar (1995): 121. On oriental despotism, see Robert C. Tucker, ed., *The Marx-Engels Reader*. NY: W.W. Norton and Company, Inc., 1972: 596; on the Asiatic mode of production see *ibidem*: 5; and L. Krader, *The Asiatic mode of production: sources, development and critique in the writings of Karl Marx*. Assen: Van Gorcum, 1975. We recognize that even this characterization does not encompass the cultural totality of the working class experience in Korea or elsewhere. For an introductory brief on the neglected dimensions of Asian labor studies, see Prabhu Mohapatra, Andrew Wess and Samita Sen, "Asian Labor: A Debate on Culture, Consciousness and Representation," Amsterdam: CLARA: *Working Papers on Asian Labor* N.1 (1997).

<sup>7</sup> According to the 1987 ILO Yearbook, South Koreans worked an average of 53.8 hours a week, had the biggest gender differential in pay (women earning 44 percent of male salaries in 1980) and had a rate of fatal injuries more than double that of Singapore, Hong Kong, Argentina, Mexico, the US and Japan. As cited in You (1995): 116, 121 (Table 4.7).

## Labor Unions as Political Actors

Labor politics is as important, if not more so, to the study of transitional political regimes as it is to established and consolidated capitalist democracies. A system of electoral representation based upon the universal franchise and capitalist production requires the ongoing contingent consent of subordinate groups, of which organized labor is one of the most crucial. Only democratic regimes simultaneously require the consent of elites and the mass of people who constitute the human element that drives the economic machine. The simultaneous reproduction of the vertical and horizontal dimensions of contingent consent is therefore a distinctive characteristic of democratic capitalist systems.<sup>8</sup>

The industrial relations literature sees unions as social interlocutors who defend the material interests of their members within production, and who together with employers see collective bargaining as the preferred instrument through which conflicts over material interests are resolved. This framework promotes mutual second-best negotiated outcomes that serve as the substantive bases for the “spontaneous” (in that it emerges as an outcome of the autonomous choices of collective agents within self-reproducing institutional settings) class compromise that sits at the core of democratic capitalist reproduction.<sup>9</sup> The impact of this compromise extends past the politics of production.

We make no pretence of being able to cover all the ways in which people consent to the socio-economic and political status quo, much less the cultural and ideological prisms through which mass consent is filtered.<sup>10</sup> Instead, we concentrate on two levels: political consent, evidenced by organized labor’s relationship with political parties and the working class vote in national elections; and material consent (or consent at the level of production), which is measured by wages, strikes and collective bargains.

Organized labor serves as a leader of subordinate groups in civil society because of its structural location and its efforts to expand worker’s rights within the process of production. It carries strategic weight in the economy, which makes

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<sup>8</sup> On the horizontal dimensions of democratic regimes see Guillermo A. O’Donnell, “Horizontal Accountability in New Democracies”, *Journal of Democracy*, V.9, N.3, (1998): 122-126. On the vertical and horizontal dimensions of consent, See Paul G. Buchanan, *State, Labor, Capital: Democratizing Class Relations in the Southern Cone*. Pittsburgh: University of Pittsburgh Press, 1995, Chapters 1-2. The original take on the necessity of consent for hegemonic rule is provided by Antonio Gramsci. *Selections from the Prison Notebooks*, ed. and translated by Quentin Hoare and Geoffrey N. Smith. NY: International Publishers, 1971.

<sup>9</sup> For a sampling of the literature see James Barbash, *The Elements of Industrial Relations*. Madison: University of Wisconsin Press, 1984; and Theodore Kochan, Robert Mckerse and Paulo. Capelli, “Strategic Choice and Industrial Relations Theory,” *Industrial Relations*, V.22, N.1 (1984). The material bases of consent and class compromise are elaborated by Adam Przeworski and Michael Wallerstein, “The Structure of Class Conflict under Democratic Capitalism,” *American Political Science Review*, V.76, N.2 (1982): 215-38.

<sup>10</sup> For examples of those who do attempt to build a more comprehensive picture of this, see Louis Althusser, “Ideology and Ideological State Apparatuses,” in *Lenin and Philosophy and other essays*, London: New Left Books, 1971: 121-73; M. Barrett, *The Politics of Truth*, Cambridge: Polity Press, 1991; Michael Burawoy, *Manufacturing Consent: Changes in the Labor Process under Monopoly Capitalism*, Chicago and London: Chicago University Press, 1979; Antonio Gramsci, *Selections from the Prison Notebooks*; P. Q. Hirst, *On Law and Ideology*, London and Basingstoke, Macmillan, 1979; Nicos Poulantzas, *State, Power, Socialism*, London: New Left Books, trans Patrick Camiller, 1978; and Goran Therborn, *The Ideology of Power and the Power of Ideology*, London: Verso, 1980.

it harder to ignore than non-productive groups. This gives it a leadership role when the subordinate group voice is organized around material and ideological demands.<sup>11</sup> In pursuing rights over the labor process, unions help expand basic notions of citizenship and entitlement beyond their immediate sphere of influence. The labor movement thus triggers a “coat-tail effect” in that weaker groups can tie their demands to organized labor’s political agenda, thereby expanding the horizontal networks that are the collective bases for the democratization of civil society. This in turn produces a “snow-ball effect” in that the cumulative weight of these combined demands impacts more heavily on the political-institutional structure and economic apparatus.

The higher the productive and political level at which working class interests are aggregated and the more they are linked to the demands of other collective agents, the more unions will be able to defend the material and political fortunes of their memberships, attract the support of other subordinate groups and influence the course and content of public policy. This depends on the institutional framework in which organized labor is inserted as a political and economic agent. This network of institutions, organizations and practices can be referred to as the labor politics partial regime.<sup>12</sup>

### South Korea

Prior to 1987 and the holding of direct civilian presidential elections, organized labor was a politically repressed, organizationally weak and economically subordinate collective actor in South Korean society. Under the authoritarian labor codes prior to the 1990s, unions were prohibited from political activities, strikes were outlawed, collective bargaining could only occur at the shop level, and large segments of the workforce were prohibited from organizing at all (including all of the public sector). National-level unions were puppet organizations with little more than paper status, foremost amongst these being the Federation of Korean Trade Unions (FKTU), created as an official organ of the ruling party under the Rhee (1948–60) government, reorganized and overseen by the Korea Central Intelligence Agency (KCIA) under the Park government (1961–79) in 1963, placed under further restrictions by the revamped National Security Commission (formerly KCIA) under the Chun government of 1980–87. Under the dictatorial labor relations system all unions had to affiliate with the FKTU, only one union was allowed per enterprise, no strikes were permitted and no union political activities allowed. It was an exclusionary state corporatist labor relations system in which the state, not unions, determined worker’s fortunes. This state-dependent type of initial political incorporation of labor eventually led

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<sup>11</sup> This is discussed at some length in Paul G. Buchanan (1995): Ch.3. Also see Colin Crouch, *Trade Unions: The Logic of Collective Action*. London: Fontana Books, 1983; and Claus Offe and Helmut Wessenthal, “Two Logics of Collective Action,” in Maurice Zeitlin, ed., *Political Power and Social Theory* 1. Greenwood, CT: JAI Press, 1980: 69-117.

<sup>12</sup> P.C. Schmitter, “The Consolidation of Democracy and the Representation of Social Groups,” *American Behavioral Scientist*, V.35 N.4/5 (March 1992): 422-50.

to a divided form of labor political insertion once independent shop-level unions began to organize outside of the FKTU umbrella in the 1970s and 1980s.<sup>13</sup>

Led by female workers in the textile industry in the mid 1970s, a number of grassroots unions emerged that periodically engaged in wildcat and political solidarity strikes to advance both their immediate material interests as well as the opening of the political system. Although this often resulted in the death and imprisonment of their leaders, it also took a cumulative toll on both the state and employers, especially during times of tight labor markets and export demand—both of which were the case in the late 1980s. Ironically, the heroism of the female workers led not their advancement but to their eventual substitution by male workers as leaders of the independent union movement, something that was in equal part product of the shifts in development strategy away from the textile industry in the early 1980s and the ingrained patriarchal structure of Korean society.

After the Korean War, Korea adopted a policy of “compressed development” based upon a state-led, foreign-dependent economic model centered on the family conglomerates known as *chaebol*. The country embarked on “primary” import-substitution industrialization (ISI) in the 1950s and “primary” export-oriented industrialization (EOI) in the 1960s (“primary” referring to the promotion of labor-intensive consumer non-durable manufacturing), followed by “secondary” ISI in the 1970s and “secondary” EOI in the 1980s (“secondary” referring to technology-intensive durable consumer and capital goods manufacturing). While this served to promote rapid and sustained growth for over thirty years, it also led to serious dislocations each time one phase was replaced by another. These dislocations were acutely felt in the workplace, and came to be the center of labor unrest. In addition, it produced serious friction between business groups in the old and new productive sectors, which had a direct impact on politics in a country already rent by regional and personal rivalries. Specifically, these developmental junctures produced a series of political crises between reformers and hard-liners within the various military governments that succeeded each other in power throughout this period, and which led to the all-out power conflicts that resulted in the murder of president Park Chung Hee in 1979.

Illegal strike activity accelerated after Park’s assassination. The State-sponsored move towards capital-intensive industrialization for export in the early 1980s shifted the composition of the workforce from predominately unskilled female workers in labor-intensive industries such as textiles to skilled male workers in petrochemicals, automobile manufacturing, shipbuilding and steel manufacturing. This made it more difficult for the authorities to ignore union demands (even if they continued to be repressed). Since male unionists were both better educated and less servile than female workers (as part of a more general feature of Korean society) the level of militancy displayed by the union movement increased. In addition, students began to establish ties with the labor unions as the

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<sup>13</sup> The notion of initial incorporation is offered by Ruth Berins` Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement and Regime Dynamics in Latin America*. Princeton: Princeton University Press (1991): 15-18, 161-68, 752-53, 783-85. The characterization of forms of incorporation and insertion are ours.

educational requirements of skilled labor positions increased along with the demand for the latter.

As a result, after years of relative quiescence under the dictatorships, organized labor began to flex its newfound muscle in the early 1980s—although still within limits acceptable to the ruling elites. By the time of the regime change brought about by the direct presidential elections in December 1987, this newfound strength had spilled into the streets in the form of dozens of wildcat strikes and national demonstrations in favor of democracy. The summer of 1987 was marked by a massive wave of strikes and political protests in favor of the transitional moment, and briefly saw the convergence of working and middle class interests along with students and farmers in favor of democracy—something that rapidly dissipated once the new regime was inaugurated in 1988. However, the constitution under which the first elected government was installed was crafted by the departed dictatorship, which ensured an ongoing authoritarian influence in labor relations.

The election of the government of former general Roh Tae Woo was a mere formality in the transfer of power and did little more than grant workers the legal right to form autonomous shop unions. It did not recognize their political role or higher-level organizations. In response, following upon the successes of independent shop union activism, in January 1990 an independent labor confederation was created. The Korean Alliance Of Genuine Trade Unions (KAGTU), later reorganized in 1995 as the Korean Confederation of Trade Unions (KCTU), grouped the more restive elements of the labor movement both before and after the KCTU was legalized in 1999. Along with the move towards electoral politics and the relaxation of authoritarian controls, this forced the FKTU to distance itself from its erstwhile masters in the Korean security services in order to retain a presence with the rank and file. This moderation subsequently allowed for the formation of tactical alliances with the KCTU, such as during the general strike of December 1997-January 1998.

The emergence of an independent labor movement also allowed unions to develop ties with militant sectors of the student movement, which also were outlawed or repressed throughout the initial democratization period. Even so, for most of Korean society unions were considered suspect, more often than not due to a strongly ingrained anti-communist ethos inherited from the partition of the Korean Peninsula and reinforced by a steady dose of government propaganda. Notwithstanding the lack of general support, the advances of the 1980s gave unions the first significant independent presence on the social and political scene; something that bore fruit after the initial opening process which began in 1987.

In 1987 the level of industrial conflict rose exponentially, as did the number of unions (see Table 6.1). The number of workdays lost similarly peaked in 1987 due to the explosion of popular protests in favor of democratization with over 6 million workdays lost, and after remaining relatively high for the next five years, declined steadily to a low of 393,000 in 1992 before rebounding to over a million in 1998 as a result of the general strike that greeted the New Year.

**TABLE 6.1**

**Strikes in South Korea 1986-1998**

	<b>Number of strikes</b>	<b>Number of workers involved</b>	<b>Number of workdays lost</b>
<b>1986</b>	276	47,000	-
<b>1987</b>	3749	1,262,000	6,000,000
<b>1988</b>	1,873	293,000	-
<b>1989</b>	1,616	409,000	-
<b>1990</b>	322	134,000	-
<b>1991</b>	234	175,000	-
<b>1992</b>	235	105,000	393,000
<b>1993</b>	144	109,000	-
<b>1994</b>	121	104,000	-
<b>1995</b>	88	50,000	-
<b>1996</b>	85	79,000	-
<b>1997</b>	78	44,000	
<b>1998</b>	129	1,146,000	3,000,000

*Source:* Jooyeon Jeong, *Foreign Labor Statistical Figures*. Seoul: Korean Labor Institute (2000): 108 -09. The figures for workers and working days lost for 1998 include the general strike of December 1997-January 1998, and represent estimates based upon available data.



Most strike activity initially concerned issues of representation (i.e. recognition of independent unions as bargaining agents) and citizenship rights (easing of repression and repeal of authoritarian labor and security legislation that restricted the political activities of unions and other social groups) rather than bread and butter issues. One sociological survey found that political process theory was a better explanation for Korean strike behavior than economic strain theory, and that political facilitation as well as physical repression were significant in determining levels of strike activity during the period preceding and immediately following the initial transition to electoral rule.

“The overall changing political milieu has stronger explanatory power than worker’s perception of economic hardships. Within the large domain of political process, the association between the government’s facilitative tactics and industrial disputes is far stronger than that between the regime’s repressive strategies and dissenting acts...Changes in government’s political control capacity are closely associated with the patterns of labor disputes in society.”<sup>14</sup> However, after 1997 strikes came to center on the issue of layoffs and the use of temporary and part-time work, which undermined the traditional pattern of life-long employment characteristic of Korean labor relations. As several authors have mentioned, loss of employment entails a major loss of face in a society in which honor matters. This in turn has contributed to increases in divorce rates and suicides as it undermined the traditional structure of Korean society.<sup>15</sup>

This is not to say that the political nature of most strike activity did not have an economic impact, at least in the early days of the elected regime. In the words of one commentator describing the “breakdown” of authoritarian labor-capital relations, “the most obvious changes concern wage formation. Labor unions exert a much stronger influence over wage determination now. One result of this is the big increase in real wages. Real wages in manufacturing rose 8.2 percent in 1987, 12.1 percent in 1988 and 19 percent in the first nine months of 1989, exhibiting a marked increase from the average annual real-wage growth rate of 5.7 percent during 1981-86.”<sup>16</sup> From then on, earnings growth in non-agricultural activities steadily declined, falling from the high of 21.1 percent growth for 1989 to a contraction of 2.5 percent in 1998 before rebounding to 12.1 percent growth in 1999.<sup>17</sup> Put simply, recognition of unions has an upward impact on wages, so that the political nature of strikes eventually generates material rewards.

In Korea during the transition it was political rationales that pushed strike levels upwards and which led to the rapid rise in union creation, increases in union membership numbers, and dramatic increases in real wages. This pattern of political agitation paving the way to material and organizational gains was repeated in the general mobilization of December 1997 to January 1998, when South Korea

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<sup>14</sup> Mi Kyoung Kim Park, “Economic Hardships, Political Opportunity Structure and Challenging Actions: A Time Series Analysis of South Korean Industrial Disputes, 1979-1991,” *Asian Perspective*, V21, N.2 (Fall, 1997): 171.

<sup>15</sup> On the impact of changing labor relations on Korean society, see Jong-Il You, “Changing capital-labor relations in South Korea,” in Juliet Sehor and Jong-Il You, eds., *Capital, the State and Labor*. Aldershot: Edward Elgar, 1995: 111-151 and sources cited therein.

<sup>16</sup> *Ibid*: 143.

<sup>17</sup> Jooyeon Jeong, *Foreign Labor Statistical Figures*. Seoul: Korean Labor Institute (2000): 52 (Table III.5).

was brought to a virtual standstill by a wave of rolling strikes involving over three million people protesting the ramming through of anti-union labor legislation without parliamentary consultation or advance notice on the part of the Kim Young-sam government. After other social movements joined the protest against the assault on democratic procedure, the government relented, withdrew the legislative package and ordered across-the-board wage increases for both public and private sector employees (although it quietly re-introduced most of the contested labor laws to a compliant parliament in May 1998). Thus the question remains: did the move towards elected government fundamentally alter the situation of labor and its allies in civil society after the formal transfer of power was completed with the rotation in office of 1998?

In spite of the gains made between 1987-90, organized labor remained relatively weak as a collective actor both before and after the transition to civilian elected rule. The Grand Conservative Coalition government of 1990-1998 reversed many of the de facto gains of the labor movement and stepped up the repression of its most militant voices under the umbrella of the authoritarian labor legislation. It was not until after the election of Kim Dae-jung in December 1997 that the authoritarian legislation was loosened to allow certain public sector employees to organize, the KCTU was legalized (in late 1999) and unions were permitted to lawfully engage in political activities (so long as that was not their main function).

But Kim Dae-jung initially led a very fragile regionally based coalition between his liberal National Congress of New Politics (NCNP)—later reformed as the Millennium Democratic Party (MDP) in light of Kim's appeal in local elections—and the conservative United Liberal Democrats (ULB). Moreover, his coalition was confronted by the political remnants of the authoritarian regimes in the form of the opposition Grand National Party (GNP) as well as a host of regional rivals. As a former opposition leader imprisoned and sentenced to death (later commuted to life imprisonment) by the Chun regime in the early 1980s, Kim Dae-jung and his close advisors were repeatedly accused of pro-communist sympathies, which forced them to bend over backwards to alleviate such concerns and keep their political careers afloat.

This resulted in a conservative, pro-business bias in the tone of government policy even after he was elected, and intensifying after the financial crisis of 1997 in spite of the relaxation of controls on organized labor. With the defection of the ULB from the coalition in early 2001, Kim Dae-jung found himself with a minority government. The staggered mid-term parliamentary elections of 2000 further weakened his authority as the MDP suffered losses of seats along both regional and ideological lines. Whereas his personal appeal remained strong in the public eye, the weakness of his party support in parliament forced Kim to continue the entrenched political habit of catering first and foremost to business interests.

The political preferences of Korean workers also betray a conservative bias. There are no viable left or labor-based parties in South Korea, and what passes for "progressive" such as the NCNP/MDP are actually variants of standard

liberalism with a focus on civil liberties and individual rights—especially property rights. For their part, Korean workers have tended to support the mainstream parties (in spite of their ever changing names and coalitional make-up) in a roughly equal percent split among progressive, center-right and conservative choices, with a slight preference for the progressive side and a general antipathy towards politicians associated with the authoritarian era. Underlying this are deep-seated regional divisions with strong personal overtones, which further undermine the cohesion of the working-class vote.

For that reason, although several alterations to the Labor Codes have been made (again, by permitting union political activity, legally recognizing the KCTU, and allowing for regional or occupational federations, two unions per shop, limited public sector organizing and firm-specific economic strikes), and a national-level concertative forum called the Tripartite Commission was formed as a permanent ad hoc presidential advisory committee to discuss labor-business relations, the thrust of the authoritarian labor relations framework has been maintained to this day. This is evident not only in the fact that Korea is still not in accord with the majority of International Labor Organization standards for individual and (especially) collective labor rights, but in the very character of collective bargaining itself. Virtually all collective bargaining occurs between firms and individual shop level unions, with no coordination between shop unions within the same industries even though the large *chaebol* oligopolies are able to coordinate their actions with respect to unions in each industrial sector. More tellingly, less than ten percent of Korean workers are covered by collective bargains at all.

Bargaining largely concerns wages, although non-wage issues such as holidays, bonuses, productivity ratios, worker involvement in management decisions, pension funds, occupational health and safety and dismissal have slowly crept into negotiations during the course of the 1990s. The focus on shop-level bargaining continued a long-term practice. According to Jooyeon Jeong, “among a total of 5,733 enterprise unions in Korea, 84.5 percent (4,841 unions) were involved with enterprise, single-employer bargaining while only 14.9 percent (855 unions) were with multi-employer bargaining in 1997...Prior to mid-1987 besides low union membership and rate of unionization, labor had little or no collective voice even in unionized firms.”<sup>18</sup>

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<sup>18</sup> Jooyeon Jeong, “Pursuing Centralized Bargaining in an Era of Decentralization? A Progressive Union Goal in Korea From a Comparative Perspective,” *Industrial Relations Journal*, V.32, N.1 (2001): 60. In addition, the FKIU encompassed 23 industry-level unions, 3,778 shop level unions and 1,022,586 members in March 1998, while the KCTU covered 14 industry-level unions, 1,169 shop level unions and 455,483 members respectively. This means that most of the Korean labor movement remains tied to the authoritarian-created labor confederation and is seriously divided as a result.

TABLE 6.2

**Unions in South Korea 1986-1998**

	<b>Number of unions</b>	<b>Union membership</b>	<b>Union density (percent)</b>
<b>1986</b>	2,658	1,036,000	12.3
<b>1987</b>	4,086	1,267,000	13.8
<b>1988</b>	6,142	1,707,000	17.8
<b>1989</b>	7,883	1,932,000	18.6
<b>1990</b>	7,698	1,887,000	17.2
<b>1991</b>	7,656	1,803,000	15.8
<b>1992</b>	7,527	1,735,000	14.9
<b>1993</b>	7,147	1,667,000	14.1
<b>1994</b>	7,025	1,659,000	13.5
<b>1995</b>	6,606	1,615,000	12.6
<b>1996</b>	6,424	1,599,000	12.2
<b>1997</b>	5,733	1,484,000	11.2
<b>1998</b>	5,560	1,478,069	11.5

*Source:* Hagen Koo, "The Dilemmas of Empowered Labor in Korea," *Asian Survey*, V.40, N.2 (March/April 2000): 231 (union numbers); Jooyeon Jeong, *Foreign Labor Statistical Figures*. Seoul: Korean Labor Institute (2000): 107 (union density and membership numbers); International Labor Organization, *Trade Union Membership*. Geneva: ILO

The bottom line is clear: even if improved over the situation in 1987, on a collective level working-class consent is not a priority in Korea.

Hence, after a brief period between 1987–90 in which labor asserted its political and social presence and gained limited rights, the pattern of labor subordination to business was restored. Although the total number of unions in South Korea rose steadily throughout the 1980s and accelerated dramatically after the 1987 elections, union density never exceeded 18.6 percent of the workforce (1989) and in fact fell steadily from that high point to just 11.5 percent of the total number of employees by 1998.<sup>19</sup> This paralleled trends in strikes and number of unions.<sup>20</sup>

It should be noted that union dues are only paid to shop unions, which leaves regional federations and national confederations under-resourced and thus weak relative to their local counterparts. Moreover, this lack of financial support makes for a very small and weak national labor leadership, which undermines their presence in national level bargaining forums such as the Tripartite Commission (created in January 1998 to coordinate labor-business-state relations).

Nor has organized labor gained a foothold with other social groups and movements beyond those established with students in the 1980s and the episodic coalition with similarly disaffected elements of society tactically focused on the same issues (as was the case with the general strike of 1997). The combination of a strong anti-communist ethos in Korean society, ideological disputes between collaborationist (with the dictatorships), cooperative (with the elites) and militant unionists (some class-compromise and social democratic-oriented, others class-conflict and orthodox Marxist in nature), and the organizational weakness of the labor movement due to the decentralized nature of the (limited) collective bargaining system and ongoing divisions between the FKTU and KCTU, all conspired against the formation of national-level horizontal ties between labor and other anti-establishment groups. To this day organized labor lacks general public support except in specific instances (such as the February 2002 demonstration against the visit of George W. Bush), and has yet to establish the community networks that allow it to assert an autonomous political presence beyond the immediate concerns of the rank and file. The only ongoing horizontal tie that labor maintains is that between the more radical unions and equally militant students, both of which are minorities within their respective peer groups.

Part of the reason for this is the long period of wage growth and lifelong employment guarantees that were the hallmarks of the authoritarian developmental model in all of its guises, and which underpinned the elected regime's approach to the labor "question" until 1998. On an individual level, Korean workers were guaranteed both job security and general welfare benefits under the authoritarian labor codes. The price for this was restrictions on collective action, political freedom and sectoral autonomy. For the bulk of the

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<sup>19</sup> Ibid: 61 (Table 1).

<sup>20</sup> Hagen Koo, "The Dilemmas of Empowered Labor in Korea," *Asian Survey*, V.XL, N.2 (March-April 2000): 231 (Table 1); and Lim Hyun-Chin, Hwang Suk-Man and Chung Il-Jon, "IMF's Restructuring, Development Strategy and Labor Realignment in South Korea," *Development and Society*, V.29, N.1 (June 2000): 45 (Table 2).

urban working force, this was an acceptable exchange: with only a few glitches, real wages in manufacturing grew steadily both before and after the period of transition, reflecting the Korean state's ongoing commitment to "buying" legitimacy with rising material standards for workers. Fueled by positive export market conditions, real wages for workers covered by collective contracts rose 6.4 percent in 1986, 17.2 percent in 1987, 13.5 percent in 1988, and 17.5 percent in 1989, then slowed down over the next eight years before contracting 2.7 percent in 1998 in the wake of the Asian financial meltdown.<sup>21</sup>

Although rebounding to positive figures in 1999–2001, overall wages barely kept ahead of inflation while unemployment stabilized around 9 percent, the highest levels since shortly after the Korean War. Much of the latter was due to the introduction in 1997–98 of labor laws that made it easier to hire temporary and part-time labor, dismiss workers, hire replacement workers during strikes, and withhold wages during strikes (i.e. *de facto* lockouts) again. In exchange, small improvements were made in labor's political and organizational status, which satisfied the concerns of union leaders but had a devastating effect on previously life-tenured employees (the rank and file). In addition, a wave of bankruptcies in manufacturing after 1997 contributed to the rise in unemployment. Not surprisingly, unemployment rates soared after the labor flexibilization policies were enacted, with the percentage of unemployed rising from 2.6 percent in 1997 to 6.8 percent in 1998 and the total number of unemployed tripling from 574,000 to 1.7 million in the same period.<sup>22</sup>

The Kim Youngsam government began a process of labor law liberalization in April 1996 with the creation of a 30-member Presidential Commission on Labor-Management Relations Reform. Rather than negotiate between labor and business interests, however, the commission eventually rubber-stamped business demands for labor flexibilization (particularly with regards to hiring and firing), something that led to the protests of December 1997 to January 1998. Even so, the subsequent signing of a Tripartite Accord on the part of the Tripartite Commission on February 6, 1998 paved the way for the incremental opening of the labor relations system, albeit with the trade-offs mentioned above.<sup>23</sup>

In essence, very little changed in the field of labor politics between 1987 and 1997, and the changes that have followed have been drawn out, piecemeal, incomplete and mostly done around the margins of the relations in production. The first ten years of the "democratization" period were not propitious for major advances on the labor front, as the first two elected governments were both conservative in orientation and closely tied to *chaebol* interests. In 1998, with the coming to power of the former opposition coalition led by Kim Dae-jung, modifications were made that gave hope that genuine democratization of the

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<sup>21</sup> Jeong (2001): 61 (Table 2).

<sup>22</sup> Kyung-San Chang, "Social Ramifications of South Korea's Economic Fall: Neo-Liberal Antidote to Compressed Capitalist Industrialization," *Development and Society*, V.28, N.1 (June 1999): 49-91. It should also be noted that the loss of manufacturing jobs in the wake of the 1997 economic crisis also contributed to the rise in unemployment.

<sup>23</sup> An overview and analysis of recent trends in Korean labor law is found in Economist Intelligence Unit, *Country Commerce: South Korea*, New York: EIU, July 2001: Section 10.2, 51-52.

labor relations partial regime was in store. Foremost among these changes was the creation of the national level Tripartite Commission. But even this concertative vehicle proved to be more symbolic than substantive, in that while it recognized labor as a legitimate social “partner” for the first time in Korean history, it did little in the way of substantively incorporating labor into the policy-making process, institutional framework governing labor relations, or in consultations about major issues of income and employment.

In turn, hampered by its organizational, ideological and structural weakness, Korean labor unions have proven unable to impose an alternative agenda of their own and thus find themselves once again at the mercy of business interests, although since 1997 this has been more influenced by IMF rationalization dictates than the backroom dealings between politicians and *chaebols*. Whatever the case, recent trends in labor politics suggest that substantive democratization of Korean civil society is still a long way off.

### **Taiwan**

If South Korea’s pre-democratic labor relations regime could be characterized as exclusionary state corporatist—many elements of which continue to survive in the current political moment so that contemporary labor relations could still largely be thought of in this way—the subordination of organized labor in Taiwan during the same period relied on a slightly different mix of coercion and co-option. In short, while physical and legal repression still made up part of the picture, this was supplemented by the party-state’s sponsorship of trade unions in particular. Thus, we characterize the pre-1986 labor relations regime as inclusionary state-corporatist, and given what we know about the influence of such similar systems on the consolidation of democracy in such countries as Argentina, but especially Mexico, we know that they are deeply embedded and shape the organizational and ideological bases of labor movements in very specific ways. Disentangling organized labor from dominant political parties is difficult, and union movements fostered in these environments tend to be bureaucratized (creating tensions between leaderships and rank-and-file union members), riddled internally with authoritarian legacies, and prone to collaboration with elites even if this serves neither the interests of their members nor the cause of democracy particularly well. In addition, it should be noted that while Taiwanese state corporatism has some affinities with its Latin American counterparts, for instance, some of these other well-noted cases relied on a mobilizational ideology in order to rally support for the authoritarian regime. The Taiwanese version, by contrast, is fundamentally and exceptionally demobilizational.

The strategies of co-option associated with Taiwanese state corporatism were, in part, a general reflection of state-society relations on the island once the KMT was forced to retreat there in the late 1940s. While the repression of political dissidents through imprisonment or assassination took place especially during the very early phase and represented the KMT’s “stick,” the party also used a series of different “carrots” to ensure local loyalty to the regime. Importantly, land reform and State investment in industry during the import-substitution phase of

development (until 1960) helped to gain the support of the local population. Paralleling these developments, organized labor was more likely to be subject to outright repression during the first two decades or so of KMT rule. Once the regime shifted its development strategy to one of export-led growth in the 1960s, ideologically acceptable unionism was encouraged.<sup>24</sup>

The legal framework for the incorporation of labor into the KMT's corporatist system was inherited in the form of the Labor Union Laws that were passed on the mainland in 1929. These gave the right to organizations with a minimum of thirty members to register as trade unions. Such bodies could be organized along either shop-level or occupational lines, but industry unions, usually the most politically oriented type, were effectively banned. Occupational unions, once established, needed to have monopoly representation within specific geographical areas. Strikes were generally banned, and unions had only one option with relation to which peak body they could affiliate to.<sup>25</sup> The Chinese Federation of Labor was affiliated to the KMT.

State sponsorship of ideologically acceptable unionism soon ensured that Taiwan had a union density rate comparable to many social democratic countries, and much higher than that of South Korea, Singapore or Hong Kong. However, union membership was never compulsory as it was in Australia or New Zealand, for example, so that even the higher estimates of union membership in Taiwan report that the percentage of employed workers who were union members averaged around 15 per cent during the 1970s before rising steadily to around 20 per cent during the 1980s. But union membership and density data are only one indicator of union "strength," and given the insertion of the trade union movement in an authoritarian labor political system and labor relations regime in general, labor was clearly a subordinate actor prior to the long drawn-out transition from authoritarian rule that began in the mid-1980s.

Most writers date the process of Taiwanese democratization from 1986, though the constitutional reforms of that year and the lifting of martial law in 1987 can be viewed more properly as the deepening of a process of political liberalization that had begun in the early 1980s. Because liberalization projects are eminently reversible, and are often at least initially designed to give legitimacy to the authoritarian regime in question rather than spark full democratization, the 1996 general elections, the first in which the President was directly elected, can be regarded as the beginning rather than the end-point of democratization. Furthermore, given the enormous power that the President still wields in the political system, it was not until the KMT finally lost the Presidency to the Democratic Progressive Party's (DPP) Chen Shui-bian in 2000 that a meaningful rotation in office can be said to have occurred.

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<sup>24</sup> This follows the scheme laid out in Joseph S. Lee, "Economic Development and the Evolution of Industrial Relations in Taiwan, 1950-1993," in Anil Verma, Thomas A. Kochan and Russell D. Lansbury (eds.), *Employment Relations in the Growing Asian Economies*, London and New York: Routledge, 1995: 88-117.

<sup>25</sup> The details here are provided by Yin-wah Chu, "Democracy and Organized Labor in Taiwan," *Asian Survey*, V.xxxvi, N.5, 1996: 495-510.



TABLE 6.3

## Strikes in Taiwan, 1984-98

	<b>Number of unions</b>	<b>Union membership</b>	<b>Union density (percent)</b>
<b>1984</b>	1,924	1,371,000	11.3
<b>1985</b>	2,103	1,549,000	15.4
<b>1986</b>	-	1,724,000	16.8
<b>1987</b>	2,510	1,875,000	16.3
<b>1988</b>	2,957	2,187,000	20.9
<b>1989</b>	3,315	2,530,000	24.2
<b>1990</b>	3,524	2,757,000	27.1
<b>1991</b>	3,654	2,955,000	27.1
<b>1992</b>	3,571	3,058,000	27.6
<b>1993</b>	-	3,172,000	29.0
<b>1994</b>	-	3,278,000	26.6
<b>1995</b>	-	3,136,000	23.5
<b>1996</b>	-	3,048,000	22.6
<b>1997</b>	-	2,959,000	21.5
<b>1998</b>	-	2,927,000	21.2

Source: Jooyeon Jeong, *Foreign Labor Statistical Figures*. Seoul: Korean Labor Institute, (2000): 106 -107; Yin -wah Chu, "Democracy and Organized Labor in Taiwan," *Asian Survey* , xxxvi, N.5, (May 1996): 500 (Table 1).

Like South Korea, Taiwan is thus still very much grappling with the challenges associated with the consolidation of democratic institutions that are capable of simultaneously delivering both horizontal and vertical consent. To state some of the rather obvious authoritarian legacies that reflect the fact that not everyone has subordinated their immediate interests to democratic processes, corruption (particularly the influence of organized crime), the role of conglomerates in politics, and the rather fluid and uncertain institutional relationship between the executive and the legislature are all ongoing concerns<sup>26</sup>. Given this framework, it should be clear that the role of the labor movement in the new national political regime and in the labor relations partial regime in particular is still in the process of change. However, a few specific trends and developments can be noted, many of which do not bode particularly well for the garnering of mass contingent consent and the long-term prospects for the formation of substantive democracy in Taiwan.

The English-language literature on the role of organized labor in Taiwan during the democratic transition makes much of the growth of supposedly “militant” unionism, as part of a widespread mobilization of civil society, following the lifting of martial law and the (re)alignment of the party system at the political level.<sup>26</sup> However, this analysis clearly overstates the scope and nature of labor organization during the period. Admittedly, industrial conflict did escalate after a total ban on strike action was lifted in 1987. Strikes steadily rose from a number of 907 in 1984 to a high of 4,138 in 1998, with the number of workers involved rising from 9000 in 1984 to 104,000 in 1998. Even so, the numbers of workdays lost to strike activity ebbed and flowed throughout this period, suggesting that while the number of strikes may have increased throughout the period before and after the opening of the political system, most of these remained local and of short duration.<sup>27</sup>

In addition, it is important to note that even during such an intense period of regime change (or perhaps transformation), industrial action on the part of organized labor was not aimed at gaining a voice in the new political system or even within workplaces as one might expect. Instead of focusing struggles on the right to organize outside the old KMT-state corporatist system or on the right to expand its membership at the enterprise level, strike action remained economic in nature. Further than that, instead of focusing on wage gains or growth and the distribution of profit—usually the most important “bread-and-butter” issue for labor movements working within social or liberal democratic frameworks—industrial disputes still tended to center on traditional claims such as end-of-year bonuses and other discretionary allowances.

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<sup>26</sup> See Jou-juo Chu, “Labor Militancy in Taiwan: Export Integration vs Authoritarian Transition,” *Journal of Contemporary Asia*, V.31, N.4, 2001: 441-465; Hsin-huang Michael Hsiao, “The Rise of Social Movements and Civil Protests,” in Tun-jen Cheng and Stephan Haggard (eds.), *Political Change in Taiwan*, Boulder and London: Lynne Rienner, 1992: 57-74; Chyuan-jang Shiau, “Civil Society and Democratization,” in Steve Tsang and Hung-mao Tien, *Democratization in Taiwan: Implications for China*, Basingstoke: Macmillan, 1999: 101-115. It is significant, as we will see, that these second two authors do not treat organized labor as anything special in national political life, simply as another group competing with other civil society organizations for a new place in the democratic system.

<sup>27</sup> Jooyeon Jeong (2000): 106-110 (Table VIII.1).

TABLE 6.4

## Unions in Taiwan, 1984-98

	<b>Number of strikes</b>	<b>Number of workers involved</b>
<b>1984</b>	907	9,000
<b>1985</b>	1,443	15,000
<b>1986</b>	1,485	11,000
<b>1987</b>	1,609	16,000
<b>1988</b>	1,314	24,000
<b>1989</b>	1,943	62,000
<b>1990</b>	1,860	34,000
<b>1991</b>	1,810	13,000
<b>1992</b>	1,803	12,000
<b>1993</b>	1,878	38,000
<b>1994</b>	2,061	31,000
<b>1995</b>	2,271	27,000
<b>1996</b>	2,659	22,000
<b>1997</b>	2,600	81,000
<b>1998</b>	4,138	104,000

Source: Jooyeon Jeong, *Foreign Labor Statistical Figures*. Seoul: Korean Labor Institute, (2000): 108-09.

Yin-wah Chu calculates that in the year following the lifting of martial law, more than 43 percent of disputes (whether or not they resulted in strike action) involved demands for increases in end-of-year bonuses, and between 1990 and 1992 less than one percent of disputes involved the right to organize.<sup>28</sup> Overtly political strikes are naturally still illegal, and even if union members can now elect their own leaders, rather than having them appointed by the KMT, the new union leadership is on the whole cautious and politically moderate.

In general, the growth of independent unionism exhibited similarly contradictory features. Overall, union membership in Taiwan rose from 1,371,000 in 1984 to a peak of 3,278,000 in 1994 before receding to 2,927,000 in 1998. Union density followed a similar pattern, rising from 11.3 percent in 1984 to a high of 29 percent in 1993 before declining to 21.2 percent in 1998.<sup>29</sup> However, most of this growth has occurred in occupational unions, following traditional patterns where membership is often driven by strict cost-benefit considerations on the part of workers. Industry unionism is still largely non-existent. Added to that, the formation of an independent peak union body, as an alternative to the still-KMT-dominated Chinese Federation of Labor, has occurred only very recently. The Taiwanese Confederation of Trade Unions was officially recognized by the state in May 2000 even if it had actually been formed several years earlier, illustrating the fact that the movement is still largely locked into a state corporatist system and the constraints on labor organization that entails.

This dependent relationship is also reflected in the inability of organized labor to find a new channel of representation in the new party system. Following the establishment of relatively free and fair electoral processes, the union movement had two choices if it was to break out of the clutches of the KMT: it could either form its own political party, or establish a relationship with one of the new broad-based parties that were born after 1986. The first strategy was tried, and failed rather spectacularly. A new Labor Party was established in 1987, but soon split into two factions and quickly became politically irrelevant. The alternative Worker's Party which claimed to have a "socialist" policy outlook was also unlikely to gain the support of voters in such a relatively affluent society which had been conditioned in a climate of extreme anti-Communism.

The second option of tying the fortunes of the labor movement to a mainstream political party has also been exhausted, since the main opposition party, the DPP, is the only real significant electoral challenger to the KMT and finds its main constituency in Taiwanese or Taiwanese-born business elites. The main problem here, in a similar sense to the way in which the North Korea issue clouds class politics in South Korea, is that factional and party politics revolve around the cleavage with China and the resulting debate over unification versus independence. In this context, pro-independence business leaders contest KMT traditionalists for political leadership, where both groups claim to act in the

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<sup>28</sup> Chu (1996): 502.

<sup>29</sup> Jeong (2000): 106-110 (Table VIII.5).

national rather than business or other short-term interests. Labor has no clear role in this debate, and is effectively sidelined as a result.

Although the details are quite different, Taiwan has, along with South Korea, had difficulties establishing tripartite mechanisms for solving labor disputes or, more generally, labor relations institutions that are conducive to the consolidation of democracy. Whereas South Korea had no real tradition of tripartism and so is in the process of creating these institutions from scratch, Taiwanese democracy inherited the old institutions and legal frameworks that were created under KMT-state corporatism. One of the most important functions of the old system was to solve labor disputes before they evolved into strike or lockout action. However, because the trade union movement was little more than a creation of the KMT, organized labor acted as an agent of the state rather than an agent of its members during these negotiations. In fact, very little attention has been paid by either the published literature or international NGOs to this problem of reshaping state corporatist tripartite institutions into agencies that can (re)incorporate organized labor as an autonomous actor. Collective bargaining, so central to the channeling of mass contingent consent and despite the role of corporatism in the creation of a quiescent labor movement, is all but non-existent in Taiwan. In 1995, the International Labor Organization estimated that only 3.4 percent of workers were covered by such contracts.<sup>30</sup> In short, “Taiwan has no works councils or representation of workers on corporate boards. It does not recognize Western-style labor rights, and wages are set unilaterally by employers.”<sup>31</sup>

Much of this problem stems from the fact that state control over the union movement has not changed as much as the current government would like to argue. The International Council of Free Trade Unions, an ideologically and politically moderate group that adheres to ILO guidelines, sums up the present situation:

Legislation authorizes the government to interfere indirectly in the internal affairs of trade unions. As a case in point, trade unions must submit their articles of association and rules to the authorities for review prior to official registration. The authorities can also dissolve unions if they do not meet certification requirements or if their activities constitute a “disturbance of public order”...

There are many restrictions placed on the right to strike, which makes it difficult to hold a legal strike and undermines collective bargaining. The authorities can impose mediation or arbitration procedures for disputes that it considers to be serious or involve “anti-competitive practices.” During such procedures, the law prohibits workers from interfering with the “working order.” Severe sanctions are applied for failure to comply with the law, workers are not allowed to strike and employers are not allowed to take retaliatory action.<sup>32</sup>

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<sup>30</sup> International Labor Organization, *World Labor Report 1997-98*, Geneva: International Labor Office, 1997: 248 (Table 3.2).

<sup>31</sup> Economist Intelligence Unit, *Investing, Licensing and Trading in Taiwan*, New York, December 1999: 46.

<sup>32</sup> International Confederation of Free Trade Unions, *Annual Survey of Violations of Trade Union Rights* (2001), web version <http://www.icftu.org/>.

In the absence of collective bargaining structures, minimum labor standards are laid out in the Labor Standards Law (LSL) of 1984 and administered by the Council of Labor Affairs, which was established in 1987. Again, the law pays most attention to the regulation of fringe benefits, holiday payments, and bonuses. Apart from restrictions placed on the working-time arrangements for pregnant women, flexibilization of working hours is the key goal. An amendment to the LSL in 2000 reduced the working week from 48 to 42 hours, but more than a third of employees still work more than 44 hours per week.<sup>33</sup> The law is also relatively silent on workplace health and safety issues and though the ILO does not report data on workplace accidents for Taiwan, it is clear that in all four little dragons, death and accident rates are still comparatively high. Besides that, making employers comply with the law at the enterprise level is also undoubtedly problematic.<sup>34</sup> The key dilemma, as it is for the South Korean case, is not only that the new democratic regime is being built out of labor institutions and regulatory frameworks that are, at their core, authoritarian, but that this is occurring during a phase of economic liberalization. Pressures to contain wages and depress labor standards are placed by both increased employer militancy and international demands for labor market flexibilization.

If working conditions are so bad, and workers still have a limited scope to organize channels through which to voice their concerns, why has not a more militant labor movement developed? Part of the answer lies in the long-term effects of State corporatist worker and union socialization, but a great deal is also explained by the ability of Taiwan's export-oriented growth model to continue to deliver high wages and low levels of unemployment. Admittedly, the economic crisis of the past few years has taken its toll on growth, employment, and wage rates. Growth rates of earnings in non-agricultural activities rose steadily from 8.1 percent in 1986 to a high point of 15.5 percent in 1989, before falling steadily to a low of 2.9 percent in 1999.<sup>35</sup> However, the cumulative effect of many years of generous wage growth and relative wage equality meant that political voice could be traded for material gains, even after democratization had taken place.

Over the long-term this is a tenuous and dangerous strategy. Vertical consent in democracies is contingent on the delivery of material benefits, but these must be backed up by institutions that are inclusive, and patterns of symbolic politics or shared political beliefs that "make sense" with respect to the concrete experiences of workers, now as citizens rather than subjects. It is during the bad or unstable times that such elements of national political life become crucially important. This is because consent based only on rising material thresholds is too contingent when lacking an institutional base.

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<sup>33</sup> Economist Intelligence Unit, *Country Commerce: Taiwan*, New York, December 2001: 50.

<sup>34</sup> Lee (1995): 104.

<sup>35</sup> Jeong (2000): 52 (Table III.5).

## Comparative Issues

Legacies of inclusionary versus exclusionary state corporatism during the authoritarian era led to different paths towards labor politics democratization in these countries. In South Korea the state corporatist system was largely exclusionary in nature towards organized labor, and in large measure continues to be so. In Taiwan the state corporatist system was and is largely inclusionary in nature, with the union movement subordinate to the KMT but rewarded with political access and material benefits for its cooperation. In South Korea developmental policies and major economic restructuring were implemented abruptly and favored the development of large industrial conglomerates. In Taiwan developmental policies favored a less concentrated industrial structure and more gradualist adoption of economic modernization reforms. This followed the adoption of land reform and highly egalitarian income policies by the KMT in the late 1940s, which displaced class conflicts from the center stage of political life. In contrast, in South Korea the highly inegalitarian divide between rural and urban dwellers and marked disparities in wealth between upper and lower income groups made class based differences a salient aspect of political competition before and after the transition to elected civilian rule. South Korean political elites are therefore much more dependent on the business classes (and vice versa) than their KMT counterparts in Taiwan.<sup>36</sup>

After 1984 the rate of union density in Taiwan more than doubled relative to that of South Korea, as did the number of strikes. Even so, the numbers of workers involved in strikes and the number of man-hours lost were quite similar to those of South Korea, despite South Korea's much larger working population. This leads us to believe that strikes in Taiwan were much more localized, shorter, and enterprise specific, whereas those of South Korea were more intense (measured as working-hours lost and workers involved) and more encompassing—read political—in nature.

In Taiwan after the mid 1980s, real wage rates and the scope of collective bargaining outstripped those of South Korea, including the recessionary period of 1997–99. In fact, real wages and collective bargaining coverage increased after the recession abated in Taiwan, whereas both declined (relative to previous years and absolutely) in South Korea until 2001. At a macroeconomic level, Taiwan continues to be located higher in the international division of labor than South Korea. The latter continues to be focused on low-wage intensive manufacturing, whereas Taiwan has adopted a strategy of growth promoted by skilled labor—which requires labor's cooperation, if not consent.

To do so, Taiwan developed an extensive inclusionary state corporatist system of labor relations coupled with (dominant) Party-dependent labor insertion in the political system. Offering material and organizational inducements for cooperation over exclusionary constraints, the Taiwanese political elite, in spite of the move to the electoral contestation of leadership positions (a move required by

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<sup>36</sup> On the similarities and differences between the two cases see Stephan Haggard and Robert Kaufmann, *The Political Economy of Democratic Transitions*, Princeton: Princeton University Press (1995): 279-82.

external trade partners), continues to reward organized labor for its acquiescence, even during times of economic hardship. The precarious international legal status of the KMT regime and its ostensible successors may do more to explain this situation than any domestic considerations.

In South Korea the basic framework governing labor relations remains largely exclusionary state corporatist in nature, albeit of a hybrid sort. The profoundly hierarchical nature of Korean society requires of the political elite that they follow the desires of local business elites, which means a very slow erosion of the tradition of despotic labor politics. But even if continually subordinated to the dictates of Korean capital and its international partners, organized labor in Korea has, in its exclusion, developed a degree of autonomy and independence that its Taiwanese counterparts lack. Should the Korean labor relations system ever open up fully they will be in a far better position to advance basic rank-and-file objectives than their Taiwanese brethren, who have abdicated responsibility for the material fortunes of their memberships to the government of the moment. In Taiwan, it is the relationship between union leadership and government that matter in a labor relations system based upon labor political cooperation (and subordination). In South Korea it is the relationship between leaders and the rank and file that continues to fuel the logic of collective action in an adversarial system untouched by the politics of co-optation.

Both countries retain bi-frontal state corporatist interest group administration systems in that business is always given preferential treatment over labor even if the state retains supreme authority over all interest group administration. Whereas the mix of inducements versus constraints is what separates the inclusionary from the exclusionary variants of state corporatist labor relations systems in both countries (since the legal framework remains essentially the same for both), with regards to business the system in both countries is heavily weighed in favor of inducements rather than constraints. Internal demand may be the cause of this. In Taiwan there is concern about working class consumption; in South Korea this is much less so.

## **Conclusion**

Democratic rule is desirable intrinsically (in terms of basic human rights) and because it provides a better guarantee for long-term peace and stability. But less attention has been devoted to the fundamental aspect of democratic rule that separates it from most authoritarian regimes: the simultaneous securing of both elite and mass contingent consent to the combination of politics and economics of the moment. For this reason attention to labor politics is important.

Taiwan and South Korea have traditionally used specific mixes of labor repression and co-optation in order to maintain growth and stability, the differences between them having been emphasized here. For the various reasons discussed, neither type of labor relations system is compatible with long-term democratic stability based on the construction of vertical consent, for the simple reason that they do not allow the rank and file to master their own destiny. The state giveth and the state taketh away.



Instead, South Korea has emulated Chile with regards to its labor politics, in that after a long period of authoritarian exclusion labor is granted political and social rights by an elected regime while at the same time losing the organizational and structural bases of strength (such as it existed) to the logic of labor flexibilization strategies adopted after the Asian financial crisis of 1997. In Taiwan the situation is better in that workers are treated more equitably, earn more and suffer less exploitation than do their South Korean counterparts. But the price for this is obedience and a lack of autonomy in their collective action. Although this is certainly better than the exclusion felt by Korean workers, and whereas it arguably provides the basis for some modicum of consent being awarded the KMT regime, it also retains the overarching state and party controls on what unions can do and say. This is similar to the populist and neo-populist labor relations systems of Latin America that have periodically emerged since the 1930s.

The prognosis is therefore mixed. While progress has been made towards opening the political system and liberalizing labor politics, both countries still retain strong authoritarian-corporatist traditions in the labor relations partial regime. Whereas authoritarian liberalization has led to procedural democratization, substantive institutional bases of democratic consolidation have yet to be established, much as has been the case in Latin America and former Soviet states. In this measure it seems that the East (of Asian Newly Industrialized Countries) has become the South (developing countries with authoritarian politics).<sup>37</sup>

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<sup>37</sup> The term comes from A. Przeworski when referring to the transitions in Eastern Europe. It applies here as well. See his *Democracy and the Market*, Cambridge: Cambridge University Press, 1991: 191.

## APPENDIX 6.1

### Labor relations and transitions from authoritarian rule in South Korea and Taiwan

	<b>AUTHORITARIAN LABOR RELATIONS</b>		<b>POLITICAL TRANSITION</b>		<b>CONTEMPORARY LABOR RELATIONS</b>	
	<i>Mode of incorporation</i>	<i>Political insertion</i>	<i>Period of authoritarian liberalization</i>	<i>Period of democratic consolidation</i>	<i>Mode of incorporation</i>	<i>Political insertion</i>
<b>SOUTH KOREA</b>	State-dependent; Exclusionary state-corporatist	Excluded from political sphere; limited state sponsorship of unions	1987-1996	1997-present	Limited pluralism permitted; still largely state-corporatist.	No independent labor-based party; potential to act as lobby group.
<b>TAIWAN</b>	Party-dependent; Inclusionary state-corporatist	Dependent on KMT sponsorship	1986-1996	1996- present	Some new scope for independent unionism; still largely state-corporatist in that they require official recognition.	No (electorally successful) independent labor-based party; attempts to cultivate relationship with DPP largely failed.

## APPENDIX 6.2

### Some other social and political indicators

	SOUTH KOREA		TAIWAN	
<b>Population (millions, 2000)</b>	47.3		22.1	
<b>Per capita GDP (\$US, 1999)</b>	8 490		13 250	
<b>Measures of poverty</b>				
	7.4 %		0.6 %	
<i>Population living in poverty</i>				
<i>Gini co-efficient</i>	0.32		0.33	
<b>Freedom House scores</b>	<b>1985-1986</b>	<b>1999-2000</b>	<b>1985-1986</b>	<b>1999-2000</b>
<i>Political freedoms, Civil liberties</i>	5, 5	2, 2	4, 5	2, 2

Sources: Asian Development Bank, Key Statistics of Developing Asian and Pacific Countries, Oxford: Oxford University Press, 2001: Table 1, p.31; Table 6 p.40; Table 11, page 47. Freedom House country scores, web version <http://www.freedomhouse.org>.





## CHAPTER 7

### GLOBALIZATION AND ECONOMIC DEVELOPMENT IN EAST ASIA: A New Model for Development

LAWRENCE GREENWOOD

#### Introduction

The process of globalization is both subversive and addictive. It is subversive because it undermines the status quo and challenges vested interests. It is addictive because choice, freedom, knowledge, and greater material gain, once tasted, raise expectations for even more of the same, expectations that are not easily managed politically.

The economies of East Asia are among the world's greatest beneficiaries of globalization. Robust exports and large flows of foreign investment have driven economic growth and rapidly improved welfare, reflected in rising social indices. However, globalization has also brought new challenges to the old order. Increasing competition from without and the call for greater economic and political freedom from within are combining to undermine the model of development that served the region so well in the 1980s and the first half of the 1990s, as they create new pressures to improve policy and governance.

Sound policies—including responsible fiscal and monetary policy, a robust foreign exchange regime, and a pro-competitive regulatory environment—will be more important than ever. However, they are not sufficient to assure success. Governance—the traditions and institutions of a nation by which authority is exercised and legitimacy is established—is now even more critical to success than in the past.

The pressure that globalization has triggered to improve policy and governance could result in a new East Asia model, or models, that would boost productivity and propel the region back to previous high levels of growth. The growing importance of governance as a factor of competitiveness could create a “race to the top” in good governance that could have a profound impact on the political development of the region.

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This chapter states the author's personal views, and does not necessarily reflect U.S. government policies.

This chapter will examine how globalization has changed the status quo in the East Asian region and has made good economic governance a necessary centerpiece of progress towards a new East Asian model of development.

### **Success of the East Asia Model**

The team of American and Japanese engineers that invented the integrated circuit in Texas in the mid-70s and the East German teenager waving his T-shirt from atop the Berlin wall in 1989 both played key roles in the rise of globalization. The IT revolution coupled with the growing embrace of free market policies in the wake of the demise of communism, have led to the unprecedented integration of economies and mixing of cultures over the past decade around the world, a process that has been dubbed globalization.

For nearly all the countries of East Asia, globalization has meant faster growth and more prosperity for a larger share of its population than at any other time in their histories. The gross national product (GNP) of APEC economies over the past decade has increased by a third, the number of people living in poverty has fallen by a third, and literacy rates are among the highest in the world, thanks to education expenditures that have risen faster than GNP. The citizens of the emerging economies of the Asia-Pacific region are among the most literate, healthy and prosperous in the developing world.

Though development policies varied somewhat from country to country, they generally followed a pattern described in the well-known 1993 World Bank study of eight high-performing Asian economies, *The East Asian Miracle: Economic Growth and Public Policy*. That study described a “winning mix” of sound macroeconomic fundamentals and “disciplined” government intervention. According to the report, the eight economies compelled and promoted high savings, kept a tight rein on fiscal spending, and pursued a government-led export-oriented industrial policy. They maintained relatively high-quality primary and secondary education, and largely flexible labor markets. Most controversially, the government intervened heavily in credit allocation through the activities of public and private financial institutions.

The model worked. State involvement in capital formation and allocation allowed the countries to quickly mobilize domestic savings and direct them to infrastructure and export production. The model yielded exceptionally high investment in the eight countries (more than 20 percent of GDP on average between 1960 and 1990), well-endowed human capital and high levels of productivity. Though much has been made of “crony capitalism” after 1998, in fact, policy-makers for the most part adopted the system not with the intent of benefiting traditional elites (though it undoubtedly did so), but as an expedient and efficient way to quickly allocate capital.

Relatively disciplined fiscal and monetary policy provided a stable macroeconomic environment, and an export-oriented policy allowed some governments to open up rapidly certain sectors to eager foreign investors without having to go through the politically difficult task of a broader liberalization of their societies. A rules-based trading system and a fast-growing, open American market were also critical to their success. The economies grew as they became increasingly integrated into world

markets. The eight emerging Asian economies grew an average 5.5 percent per year over the past three decades and all but Japan roughly doubled trade as a share of GNP over the past two decades (Japan is one of the few nations in the world where trade's share of GNP has actually dropped in the postwar period).

### **The Model Breaks Down**

However, as Japan learned in the early 1990's and the rest of the region discovered in 1997, that model had vulnerabilities, particularly in the financial sector. As economies grew and became more prosperous, and as trade and investment expanded, the East Asia model came under strain, both from outside and from within. Indeed, it appears that globalization itself, while benefiting the emerging economies of East Asia, also carried with it the seeds of destruction of the economic model that many countries in the region used with considerable success.

The most obvious point of pressure was from rising new competitors. Just as Japan became a competitor to the U.S. in the 1970s, the rise of the tigers put pressure on Japan, just as China is now posing a competitive challenge to Southeast Asia. Globalization means that new competitors with a new set of comparative advantages are entering the international economic arena. No country or company can afford complacency.

However, the model principally collapsed as a result of internal factors, exposed by growing integration of the Asian economies into the regional and world economy. Andrew Berg of the IMF concluded in a study of the 1997-98 crisis that the crisis was largely the result, not of macroeconomic imbalances, but instead of vulnerabilities within the Asian economies.

Most importantly, the model's system for allocating capital, while effective at rapidly mobilizing domestic and international savings, did not do a good job of allocating it to the most productive economic activities. The absence of a legal, regulatory or market mechanism to weed out failing ventures to allow new more robust ones to take their place became a growing liability. In addition, limited competition in key sectors such as telecommunication and energy made for high prices, poor service and weak infrastructure in key areas of the domestic economy.

The system also is losing popular support. The mercantilist approach to trade—sheltering local manufacturers while actively promoting exports—sacrificed consumer interests in favor of industrialists. The asset boom, stemming from policies that generated excessive capital chasing too few profitable assets, exacerbated that inequity and exploded the myth of “growth with equity” that had been a fundamental theological tenet of the Asian model. The inexorable decline over the past two decades of Japan's Liberal Democratic Party (LDP) perhaps most graphically illustrates the crumbling of that domestic consensus.

Japanese Prime Minister Junichiro Koizumi pointed to the breakdown in the East Asia model in a speech in Singapore on 14 January 2002, in which he called for a “third major reform” of the Japanese economy akin to the transformations that took place in the Meiji and post-war periods. Later in the same speech he made an intriguing proposal for an Initiative for Development in East Asia that would have Japan join Southeast Asian nations to “re-examine” development experiences to date

and consider “future models for development.” However, the offer apparently was not warmly embraced by the prime ministers’ Asian interlocutors.

It is not surprising that Koizumi is meeting strong resistance to his ideas for reform both domestically and in the region, for the old model had created franchises for politically powerful elite, who now have strong vested interests in the status quo and the political power to maintain it. The old model’s very success makes change from within difficult, slowing renewal and rejuvenation.

In examining the impact that globalization is having on the region, it is important to note that, contrary to the arguments of anti-globalists, the dynamic for change is fundamentally internal. McDonald’s is a threat to the status quo, not because it is a multinational company forcing itself on defenseless countries, but because people from those countries want to eat there. In the same way, greater economic and intellectual interaction with the world has whetted the appetite for change in traditional societies across the region, pitting those who want change against those with a vested political and economic interest in the status quo.

### **Towards a new East Asia Model**

Both Japan and the emerging economies of the Asia-Pacific region now have a formidable challenge in front of them to restore their growth potential. Growth rates, even those projected after the predicted upturn, are anemic. Some analysts are beginning to doubt that Japan and the Asian tigers will regain previous rates of growth.

East Asia’s current problems stem from the allocation of factors of production to economic activities that are not yielding high returns. To address this structural problem will require a set of policies to facilitate the efficient reallocation of that capital, including disposal of non-performing loans, bank reform, corporate restructuring, elimination of corruption, pro-competitive regulatory reform (particularly in areas where privatized monopolies continue to operate), corporate governance, rule of law, property rights, and bankruptcy and commercial laws that can facilitate the Schumpeterian process of creative destruction.

### **The New Model and Governance**

It will also require good governance. Citizens and investors alike are demanding better overall governance—i.e., more effective, transparent and legitimate operation of government institutions. While this call for better governance extends to all functions of the government, this chapter will look at four areas that have the greatest relevance for development of a new Asian growth model, that is governance as it relates to: corruption, the use of information technology, the allocation of capital, and the operation of corporations.

### **Corruption**

Corruption has had a corrosive affect on Asian growth prospects. It scares off potential investment by undermining the credibility and legitimacy of the government and creating an uncertain business environment. For example, one of the principal



reasons for Singapore's remarkable post-war success is its squeaky clean reputation, consistently sustained. Corruption also results in misallocation of capital and other factors of production as resources are moved based on personal relationships rather than return on investment. Finally, it has both quashed entrepreneurship and harmed the poor at the same time.

The 1997-98 crisis sparked a remarkably candid debate throughout the region and has led to increasing action to meet the challenge of corruption. At an international conference co-hosted by the ADB and the OECD in November 2001 Asian government officials called corruption "the most serious obstacle to democracy and sustainable development of societies" and cited estimates that corruption can cost as much as 17 percent of a country's gross domestic product. The participants, who included officials from some of the region's largest economies such as Japan, Korea, Malaysia and Indonesia, endorsed a detailed anti-corruption action plan.

China has also made eliminating corruption a priority for its domestic economic agenda. For example, under its leadership, at the APEC Leaders Meeting in Shanghai in October 2001, Leaders called on APEC economies to adopt transparency principles that would commit members to procedural transparency in critical areas such as government procurement, investment and regulation.

### **IT and Governance**

The transformation of East Asia will be closely linked to the greater use of information technology. However, the use of IT by itself cannot boost productivity or stimulate growth. As co-authors Catherine Mann and Daniel Rosen point out in their significant APEC study on the New Economy, "while information and communications technology...substantially increases information...it is the economic environment created by policies that provides opportunity and motive to actually use the information."

Thus, it is the interplay between the policy environment and IT that allows actors in the economy to act more efficiently, resulting in a transformation that yields higher productivity and economic well-being. Mann and Rosen's analysis shows that four policy "domains" are necessary to affect that transformation: fiscal, financial, trade and investment, and competition policies.

Governance plays a central role here. For example, sound fiscal policy requires both a streamlined government function as well as a political process to help assure that spending is well allocated. A budget process that tends to allocate large amounts of resources to politically-motivated mega projects or fashionable IT infrastructure that could be undertaken by the private sector, will tend to starve funding for education and health, vital for optimum access and application of IT. Competition policy and rule of law are other areas where governance is critical, particularly, as Mann and Rosen point out, in creating a legal system that will be operable internationally.

Having created the correct fundamental policy environment that will promote investment, competition, entrepreneurship and trade, East Asian economies must also put in place a legal and regulatory infrastructure to govern economic activity carried out over the Internet. The region must have consistent and harmonized rules

governing the operation of internet service providers, technical protocols, privacy, consumer confidence, dispute resolution, and digital signature, authentication and verification.

As Mann and Rosen point out in a series of case studies from the region, a combination of good policies and good governance will lead to greater investment, more use of IT, increased productivity and faster growth. The World Bank's 2001 report on capital flows made the same point: foreign investment flows have slowed to the region, but flows are likely to rise to those developing economies who have put in place the policy environment to boost the rate of diffusion of technology advances, making the expected rate of return on investment higher.

### **Allocating Capital**

The single most important step that countries in the region must now take is to transfer non-performing assets from the hands of those who are not now productively using them to the hands of those who can. If successful, that process will entail the largest reallocation of capital to ever take place in the region's history.

To do so the region must adapt a significantly different model of capitalism, one that is closer to the American model, though certainly not identical with it. At a minimum the new system must provide for deeper financial markets, robust supervision of domestic banks, an end to the "main bank" or relationship banking system, international accounting and auditing standards, and an effective bankruptcy regime. Companies must boost return on assets by shedding assets and reducing activities to those that reflect core competencies, as a number of Japanese companies, including Toshiba, Shinsei Bank, and Nissan are doing today.

This reallocation of capital now underway will have enormous implications for the region's productivity and sustained growth. It will also have enormous political implications. Government regulations, barriers to trade and investment, subsidies, and relationship-based banking, all allow, wittingly or unwittingly, traditional elite to maintain a virtuous (for them) circle of wealth and political influence. Vested interests are the principal obstacle to structural reform in the region, which in turn is the principal obstacle to the development of more democratic institutions in the region. The strength of vested interests accounts for the slow progress in moving assets to more productive uses in virtually all countries of the region.

### **Corporate Governance**

Corporate governance will play an increasingly important role in East Asian economic development. Good corporate governance results from governments creating the legal, regulatory and institutional framework in which corporations, stock exchanges, investors, trade unions and other private parties can most effectively pursue the interests of the company and the shareholders. Several factors have increased the need for a fundamentally different approach to corporate governance in East Asia.

First, the last decade in Asia has seen a significant shift from family-owned and -run firms to modern corporate entities, as patriarchs who launched firms in the 1940s and 1950s passed control to the next generation. The result in many cases was a

separation of ownership and control of the firm that, in the absence of sound corporate governance—including requirements for transparency, fiduciary responsibility, or shareholders' rights—helped mask sub-par business performance. These firms also face new pressures from aging populations that increasingly rely on pension plans that in turn need to make sound investments.

Second, capital markets changed dramatically, shifting from bank loans to equity financing with a greater emphasis on foreign capital. The shift from bank lending to equity financing, which accelerated when bank lending dried up during the financial crisis of 1997-98, has increased the demand for better corporate governance and a greater voice for shareholders (especially minority shareholders) to satisfy portfolio investors. As the OECD Corporate Governance Principles point out, long-term, patient capital will flow to where corporate governance arrangements are “credible.” Moreover, with the increase in global capital flows, foreign investors have been increasingly demanding Western-style corporate governance norms. The most remarkable example of this was Calpers' recent decision to pull out of the Philippines, Indonesia, Malaysia and Thailand out of ethical and governance concerns.

Finally corporate governance is key to resolving the misallocation of capital described above. A regulatory framework that ensures that a company's activities support the interest of shareholders will also help ensure that capital in that country is well-spent. Without good corporate governance, management can continue to block a restructuring or sale that could return a corporation to profitability and enhance economic efficiency in the economy. From Japan to Indonesia, the lack of adequate corporate governance is one of the most significant impediments to supply-side structural reform.

APEC Finance Ministers took an important step in 2000 when they formally supported key economic and financial policy standards that included the OECD Corporate Governance Principles, and called for their early implementation. The ministers explicitly welcomed the work of the OECD and World Bank in raising awareness of and the commitment to corporate governance reforms in the region.

How these principles will be applied will differ among countries and legal traditions, but the thrust will be the same, including the need for a corporate structure that protects shareholder rights, putting in place international accounting standards, the growing importance of independent board directors to assure proper monitoring of a corporation's activities, and a regulatory system that can facilitate mergers and acquisitions. Closely related to good corporate governance is a regulatory and legal structure that would allow rapid debt workouts and corporate restructuring, including an efficient bankruptcy system.

### **Is Small Government Beautiful?**

This discussion of four types of governance related to economic policy makes it clear that the role of government has not been diminished by globalization—perhaps the only myth of globalization advanced by both its advocates and detractors. In fact, globalization has made the role of government more important. Good fiscal policy is not necessarily about spending less, but about spending more wisely, for example, public

investment in education and health that is more important than ever for the economic success of a nation. Good financial policy requires more active supervision by a larger number of more highly trained regulators. Sound competition policy calls for more, not less, regulation of private and public monopolies. The issue is not the size of a government—the American bureaucracy is far larger than Japan’s on a per capita and absolute basis—but how the government relates to economic activity.

### **Conclusion: Just Like Us?**

Will the pressures on East Asia to implement reform policies and improve governance inevitably lead economies in the region to adopt American-style capitalism? Will greater integration into the world economy and greater exposure to other cultures and political systems inevitably lead to economic, political and cultural convergence?

As capital markets become more global, we are likely to see more common features between Asia and the West. This is because the so-called “American” system did not arise by fiat, but through an organic and iterative process that continues to this day of interaction between government and the marketplace. Economic actors facing the same set of incentives will generally act in a like fashion. For example, the shift from bank to equity financing brings new actors to the stage with different needs and demands that corporations must respond to if they are to access capital. It is inevitable that good corporate governance practices will become more similar and identifiable under these circumstances.

As noted above, however, this is fundamentally a process of *internal* change. A rising middle class, better informed Internet-savvy youth, aggrieved consumers, and aggressive entrepreneurs have a shared interest around the region in more transparency, accountability, and competence from their governments and policies that will allow them more freedom, choice and economic opportunity.

The most powerful voice for democracy and pluralism is coming from a growing middle class that desires more control over its destiny to assure that the fruits of its labor are not taken away by a government in which they have little or no say. Thus, since the major agent for change will not come from outside but from within Asia, capitalism is likely to evolve in ways that will both vary from country to country and share some common Asian features.

There are some initial signs of what the new model will look like. Japan has dismantled an array of regulations—from repeal of the infamous Large Retail Store Law to a new pro-competitive telecom regime which helped drive DSL rates to below American levels. Japan has also passed a plethora of new legislation that will facilitate corporate restructuring and mergers and acquisitions. Assets are beginning to move slowly into the marketplace, as seen in the recent announcement of a 100 billion yen securitization of bad loans to be sold by Goldman Sachs. In South Korea the government quickly nationalized banks and wrote off bad loans shortly after the financial crisis of 1997–1998 and Malaysia also moved quickly to address financial sector weakness in the wake of the crisis. Thailand has established a new asset

management company that has the potential to move underperforming assets back into the marketplace.

This is only a start on what will be a long road to change. What the final mix looks like and how soon it emerges will depend to a large extent on the outcome of the battle between vested interests and those pushing for change that is taking place today. The outcome will determine whether East Asia will reclaim its former place as the world's fastest-growing region.

Vital American security and economic interests are at stake. The economies that stretch along the Pacific littoral from Japan to Indonesia constitute a large and growing chunk of world GNP and world trade. We have an enormous interest in assuring that this transformation of capitalism, the most important economic transformation in the region in roughly half a century, takes place smoothly and quickly. We will need to continue to use APEC, multilateral development banks, cooperation with civil society, and our bilateral engagement to help assure that open trade and investment, pro-competitive regulation, strong financial markets and good governance are at the heart of the new East Asia development model.





## CHAPTER 8

### REFORMING LABOR, BELABORING REFORM: Structural Adjustment in Thailand and East Asia

FREDERIC C. DEYO

#### *Introduction*

This chapter comprises part of a larger study of the recent experience of market-oriented economic reform and restructuring in East and Southeast Asia. It argues that the reform process there, as elsewhere in both developing and economically advanced countries, has increasingly encountered its own socio-political limits, and that the reforms have by consequence and to varying degrees been slowed, redirected, and realigned/articulated with larger social and political imperatives. A growing literature now documents and debates this redirection and social realignment of deregulatory market reform in Europe and North America.<sup>1</sup>

Given the generally more socially disruptive and politically intrusive role of market reforms in developing than in developed countries, associated as they often are with externally imposed economic stabilization programs, the critical literature on developing country reform has to date attended largely to the negative social consequences of reform as well as to resulting political opposition and compromised reform projects. This chapter, by contrast, attends to the *institutional* tensions and contradictions associated with those reforms, especially those bearing most directly on workers, and to the ways in which changing reform trajectories have been directed to or addressed those tensions. This chapter's intent is not to discount the powerful role of reform politics in redirecting reform but rather to suggest some of the institutional dilemmas of reform programs that in various ways underlie and influence those politics. Reform politics, embracing both popular sector opposition and intra-elite conflict, are thus viewed alternately as *manifestations* of the institutional tensions of reform and conversely as influencing the manner in which those tensions are managed and accommodated, all within the varying socio-economic contexts of regional locations and sectors.

The author thus seeks to move beyond purely political *or* institutional accounts to an assessment of the outcome of *interactions* between political and institutional forces in influencing reform trajectories, noting especially the ways in which institutional

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<sup>1</sup> See, for example, the burgeoning literature on the "Third Way" and the New Left in the industrially advanced countries.

tensions acquire political significance as they are perceived and acted upon: in part by workers but more importantly by elites in the pursuit of their own sometimes conflicting corporate and developmental interests and goals. Without intending to discount the powerful impact of working-class opposition on reform, this chapter will seek to redress an imbalance in critical discussions of reform that foreground popular sector political struggle and fail to take equally seriously the changing and conflicting strategies of elite groups. In a broad sense, it is argued that the problems posed by economic reform and structural adjustment for workers are in many instances problems confronting corporate and government elites as well, and that popular sector opposition must be seen as influencing labor-impacting reforms mainly through its articulation with the interests of dominant elite groups, interests rooted more fundamentally in institutional and strategic economic considerations than in the more ephemeral and typically manageable contingencies of popular-sector political dissent.

While the larger study of which this chapter is a part encompasses China, South Korea, and other countries in Asia,<sup>2</sup> the focus here is mainly on the experience of Thailand since the mid-1990s, particularly those reforms with substantial and relatively direct livelihood implications for labor (broadly defined to include non-supervisory employees, small farmers and farm workers, and self-employed and unpaid family workers). The chapter first briefly notes some of the (real or anticipated) negative implications of market reforms for workers, and then focuses more intensively on the ways in which the reforms have generated institutional, and social tensions that have in turn led to a redirection, slowing, compensatory social buffering, and occasional reversal of key elements of reform. A concluding section then returns to the question of how worker opposition has influenced the reform process.

### **Reforming Asian Labor**

The reforms of greatest importance to workers in Asia, as elsewhere, most prominently relate to labor market deregulation, privatization of state enterprise, trade liberalization, marketization of social services and their devolution to autonomous or private-sector providers, and reduced subsidies to urban consumers and agricultural producers.<sup>3</sup> To varying degrees, these market-augmenting structural and institutional reforms may undermine the livelihood adequacy and economic security of workers in the short to intermediate term, and arguably over the longer term as well.<sup>4</sup> These

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<sup>2</sup> Thailand, China, and S. Korea in particular are selected in order to define very divergent political and economic contexts within which to trace some divergent pathways of reform within contrasting national contexts. These, and other 'local' experiences may be seen as illustrating contextually driven variation in modes of insertion into an evolving system of global capitalism.

<sup>3</sup> WTO requirements have only augmented the importance and disruptiveness of several of these reforms.

<sup>4</sup> Long term worker outcomes may arguably be enhanced under the optimistic assumptions of neo-liberal accounts which anticipate reduced consumer prices, enhanced competitiveness of local firms, industrial upgrading, increased exports, expanded job opportunities in new economic sectors, and increased inflows of foreign investment.



negative outcomes have been most severe among workers in cost-sensitive,<sup>5</sup> subsidized and/or protected economic sectors and occupations.

In Thailand, to take one case, privatization, trade liberalization, reduced state subsidization of public goods and utilities, and reduced agricultural price supports have comprised the politically most contentious reform issues for workers and small farmers. Privatization has posed the threat of bankruptcy; layoffs and reduced pay and benefits; reduced state budgetary allocations; and intensified employer cost-cutting. Worker concerns in this area have often been reinforced by resistance on the part of state enterprise managers and directors to reforms, which undermine important sources of patronage and political influence. Similarly, trade liberalization has posed new competitive threats to workers in previously protected economic sectors as employers have sought to meet new competitive pressures through cost-cutting, downsizing, outsourcing, casualization, introduction of performance-based remuneration, and benefits compression not only among low-skill workers in non-critical activities but increasingly among core, skilled workers as well. In many cases, reduced government enforcement of existing labor laws, in part based on the same logic of cost-cutting to meet new competition, has only intensified these threats. Finally, increased reliance on market-based pricing of utilities and public goods alongside reduced price supports and export subsidies for agricultural products has threatened consumers and farmers with increased economic hardship.

While many of these potentially negative outcomes of reform had been noted by critics of reform across Asia well before the economic crisis of the late 1990s, the crisis had a profound effect in revealing the economic risks associated with market reform and thus in politicizing the reform program among vulnerable segments of the population and among disadvantageously positioned economic and government elites.<sup>6</sup> In Thailand, the crisis generated unprecedented levels of political opposition to reform, and thus provided an immediate impetus to the subsequent rethinking and retreat from the Washington Consensus. But to focus exclusively on the politics of reform under the pressure of immediate crisis is to ignore some of the longer term and more enduring social and institutional tensions engendered by market reform. Those tensions, it is argued, define more enduring and fundamental boundaries and limits of reform than immediate circumstances of economic crisis. As well, they impinge more directly on elite strategies of economic competitiveness and growth than do immediate political challenges that can typically be contained through a variety of institutional and policy accommodations or, failing those, repression. For this reason, my account of the social tensions of reform starts from an analytical understanding of underlying institutional tensions and contradictions, and the implications of those tensions for the interests of workers and elites. It is in this larger context that one can better understand the emergent outcomes of reform politics.

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<sup>5</sup> I draw a crude but useful distinction here between “cost-driven” labor systems in routine, standardized and labor (vs. skill)-intensive production on the one hand, and “developmental” labor systems requiring constant upgrading of skill, motivation, and employee involvement in critical, core economic activities within and across firms on the other.

<sup>6</sup> Recognizing the mixed effects of reform, this discussion focuses largely on the negative ones, given my emphasis on tensions and pressures driving recent changes in the direction, scope, and speed of Asian economic reforms.

There are five important institutional tensions generated by economic reform for Asian labor systems<sup>7</sup>—tensions that undercut the economic strategies of corporate and government elites. These tensions respectively relate to social processes of a) labor force reproduction, b) social protection, c) developmental upgrading, d) labor discipline, and e) social integration. The first two of these (social reproduction and protection) equally affect workers and elites, albeit in different ways. The remaining three are of greater direct importance to corporate and government elites. The following account of these tensions views them largely from the standpoint of elite interests and strategies rather than of worker livelihood although it must be noted that strategic and livelihood perspectives often overlap. Indeed, such overlap creates the conditions essential for cross-class compromise in both economic and political arenas.

#### *Compromising Social Reproduction*

Competition-driven cost-cutting through wage and benefit compression, subcontracting, and casualization threatens to undercut the motivation and capacity of workers to contribute productive labor to employers and, at the extreme, of families to maintain adequate levels of nutrition, health, and accommodation to ensure the social maintenance and reproduction of labor. The more general institutional transformation underlying these problems is that of a progressive *externalization of the costs of the social reproduction of labor from employers and states to individuals, families and communities*.<sup>8</sup> From the standpoint of workers, families and communities are thus increasingly forced to draw on other economic resources and to draw down local social capital (see below) to subsidize family member participation in labor markets. Insofar as women often assume the major burden of social reproduction, the typically greater impact of casualization and cost-cutting on women than men further exacerbates this problem.

A case in point is the reliance in China and Thailand on casual or seasonal migratory labor. Here, labor is called forth on demand from what are essentially labor reserves wherein rural families, communities, and locality-based social networks substantially assume the costs of labor force maintenance and social reproduction. In the case of China, lack of citizen-based entitlement to social services and support on the part of migrant workers in coastal Chinese export-processing areas provides the formal institutional basis for such externalization.

State-directed economic reform encourages such externalization in a variety of ways. First, reform policies of trade liberalization, privatization, and marketization greatly enhance competitive pressures on employers in both private and public sectors. Second, labor market deregulation (variably encompassing decentralized

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<sup>7</sup> Labor systems comprise the interconnected social processes through which potential human labor is reproduced, protected, and transformed into actual or realized labor, socially organized within and across firms, and valorized into profit or surplus (See Frederic Deyo, "Reform, Globalization, and Crisis: Reconstructing Thai Labor." *The Journal of Industrial Relations*. Vol. 42, 2. June, 2000). Examples of labor systems include family-based subcontract household production; labor-intensive, low-skill, export-oriented factory assembly work; and higher skill, technical or supervisory factory work. Labor systems, individually and as organized within larger production systems, industrial clusters, subcontract systems, and commodity chains, variably transcend political boundaries. The clearest example of the global rescaling of labor systems is provided by migrant labor systems.

<sup>8</sup> In the case of migrant labor, such externalization extends to foreign communities and governments.

collective bargaining, reduced institutional support for trade unions, relaxed or diminished health, safety, minimum wage, and other workplace legislation and/or enforcement, and reduced state-mandated employee benefits) encourage labor-cost cutting as a primary strategic response to increased competition. Third, the reform of social insurance schemes (where they exist) through marketization, social service outcontracting, and user-pay approaches to social service delivery shifts the rules of access and eligibility from citizen entitlement to ability to pay. And fourth, the transfer of public goods and utilities from state responsibility to market provision at “realistic” market-determined prices further reduces social service access on the part of many poor families. More generally, reforms that give further encouragement to labor casualization, if only through expansion of economic sectors that utilize labor in this way,<sup>9</sup> tend to reinforce the tensions of cost externalization.

### *The Crisis of Social Protection*

Labor market deregulation undercuts the *livelihood security* of workers as employers are freed from state-mandated social insurance obligations relating to employee job security, severance pay, pension, worker compensation, health insurance, sick pay, and other benefits designed to cushion workers and their families against involuntary interruptions of work and income due to advancing age, economic downturns, employment retrenchment, disability, or illness. Deregulation is thus often associated with a growing casualization of labor, increased reliance on contract and temporary labor, and outsourcing of work to unprotected workers. Underlying these trends, and the corporate (numerical) flexibility they enhance, is a progressive *externalization of market risk from employers and state, to workers, families and communities*.<sup>10</sup>

From the standpoint of employers, welcome relief from the burdensome costs of employee job security and social insurance may be associated as well with less desirable outcomes such as reduced organizational commitment and involvement among skilled workers in core economic activities, a problem discussed in the next section. From the standpoint of governments, the progressive externalization of both social reproduction and market risk to families and communities generates other institutional dilemmas. One such dilemma relates to the capacity of families and communities to sustain workers and their dependents during economic downturns and heightened unemployment. This problem became dramatically evident during the first year of Thailand’s financial crisis, when employers and government agencies encouraged Bangkok’s laid-off workers to return to their communities of origin in the rural Northeast and North regions of the country. It quickly became apparent that these communities could no longer reabsorb returning family members, and that the social problems of urban unemployment were simply being transferred to rural villages.<sup>11</sup>

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<sup>9</sup> Early export-oriented industrialization strategies, entailing selective external market opening, anticipated some of the negative labor outcomes of reform.

<sup>10</sup> Given the rudimentary and narrow coverage of state-sponsored social security provision in developing countries, the reforms have not typically entailed cutbacks in government social protection schemes.

<sup>11</sup> It should be stressed that it was not the financial crisis itself that created the crisis of social reproduction and livelihood security. While it is difficult to disentangle the effects of reform and crisis, the reforms had been underway for 20 years in countries like Thailand and China, and haltingly in South Korea itself. What the late-1990s financial

### *The Compromising of Developmental Upgrading*

Some accounts of the competitive responses of companies to market-augmenting economic reforms describe a dualistic, rather than homogeneous trajectory of changing labor practice: one that seeks to protect core, skilled workers in essential economic activities within firms and among critical suppliers from both layoffs and demoralizing cost-cutting. Under this scenario, firms take a long-term view by enhancing their competitiveness, organizational (vs. numerical) flexibility and external adaptiveness by increasing their investment in human capital and organizational restructuring. In support of such efforts, firms may continue mutual-commitment employment practices among these workers, and thus ensure their continued loyalty and the cost-effectiveness of company training expenditures, even as other less skilled, non-core workers absorb the brunt of the costs of restructuring. The outcome of such dualistic practice is a growing gap in compensation, benefits, and career opportunities between a few core, skilled workers on the one hand, and most other workers on the other.

But contrary to this dualistic account is another more pessimistic view which stresses the way in which heightened competitive pressures associated with market enhancing reforms have the perverse, *anti-developmental* effect of undermining these progressive labor practices even among core workers by shortening the time horizon of firms and rendering such developmental programs of employee and organizational upgrading prohibitively expensive in the face of immediate competitive threats, both domestic and international. And to the extent labor market deregulation further encourages the resulting displacement of developmentalism by cost-driven practices, long-term competitiveness and industrial upgrading are compromised by growing skill deficits as employers pull back from expensive training programs in the face not only of new competitive pressures but of rising employee turnover rates as well, an outcome, in turn, of more market-driven employment relations. Declining worker involvement and loyalty have the further effect of undercutting the participation schemes and normative bases of employee motivation so important to new forms of work organization. Such, in any case, was the outcome of continuing reform under the pressure of Thailand's economic crisis.

From the standpoint of government reform policy, the second and more pessimistic of these scenarios suggests the merit of reform gradualism in order to allow firms time to position themselves for developmental, rather than self-defeating cost-driven competitive strategies. While trade agreements (e.g. WTO, APEC) typically anticipate and accommodate the possible counter-developmental outcomes of rapid market opening in developing countries through negotiated delays in tariff reduction, trade liberalization often has the adverse effect of reinforcing cost-driven strategies that take full advantage of a natural (given) comparative advantage in cheap labor. In this way, *developmental labor systems in more advanced economic sectors may all too*

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crisis did was to exacerbate, more starkly reveal, and thus politicize many of the negative social outcomes of the reforms.

*easily be undermined*, at great cost not only to employees but to larger national development goals as well.

#### *Undermining Control in the Labor Process*

Effective systems of employee control and motivation at the point of production are socially embedded in systems of belief and mutuality. In human capital-intensive and developmental (vs. cost-driven) labor systems, employers seek to capitalize on the knowledge, tacit skills, and inventiveness of skilled (and relatively costly) labor through incentives designed to elicit full involvement and commitment rather than sullen compliance. To the extent cost pressures undermine the costly mutual-commitment employment practices (which may include some combination of economic benefits, accommodation of personal and family needs, investment in training and career-building, and delegation of operational decision-making) that sustain such involvement, a principle foundation of responsible autonomy and competitive developmental upgrading is lost.

In smaller, more poorly resourced domestic firms, both family workers and paid non-family employees may often operate in a more intensely personal system of mutuality which draws on or borrows from available social capital to sustain unpaid family labor, to maintain paid employment during unprofitable periods when wages cannot be paid, and more generally to encourage loyalty and commitment, if not skill and enterprise, among workers. The replenishment of social capital in such firms depends in turn on periodic financial “recapitalization” during more profitable periods.

Where small firms act as suppliers of goods or services to larger client firms, intensified reform-driven competitive pressures may be transferred down supply chains to doubly impact such small domestic firms. In this situation, local firms are forced to rely ever more heavily on obligations of familism and relational social capital (whether appropriately termed paternalism or not) to sustain operations during now chronically difficult times. To the extent such *exploitation of social capital exhausts domestic labor systems*, both families and local firms may fail. This, indeed, is one of the important if unrecognized *institutional* bases for the anti-developmental outcomes of economic restructuring for local firms.<sup>12</sup> Where the failure of these firms undercuts essential supplier networks of large client firms, especially during market downturns or crisis, economic liberalization may paradoxically begin even to threaten the operations of transnational firms.

At first glance, it would appear that marketization and deregulation of employment in cost-driven employment sectors creates fewer institutional tensions than in the case of developmental labor systems insofar as casualization and the use of temporary or contract labor already characterizes employment practices in these sectors. Even here, however, intensified cost pressures associated with increased competition from lower-cost imports may generate disruptive rates of absenteeism, job turnover, low morale, and indiscipline (not to speak of difficulties in recruiting workers and

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<sup>12</sup> For results from a recent survey of family firms, see “Family-run businesses under stress.” *Bangkok Post*, 28 February 2002.

increased need to import cheap labor from neighboring countries with lower standards of living).

But it is important to again stress that impersonal market-driven employment practices in fact embrace only a minority of workers in cost-driven sectors, and that most of these workers are employed, rather, in small businesses, indeed often in households, wherein worker control is rooted in highly personal relations of mutuality and/or discipline. And again, the real institutional dilemma faced by employers/owners in this larger sector is two-edged: first that of a cost-driven decapitalization of the social basis of discipline; and second, the associated threat to their local social influence and status rooted in the normative relations of family, association, and community.

#### *Tensions of Social Disintegration and Disorder*

Finally, there is the larger question of the implications of market reforms for social integration and stability. This question is too broad and complex to be fully addressed here, other than briefly to note a few prominent strands in current critiques of economic reform that attend to this issue of social order. First of course is the matter of growing social inequality, often viewed as an inevitable outcome of market reforms. Such inequality is rooted in the gradual displacement of citizen-based entitlements, social wage, and income redistribution by heightened reliance on market incentives, as well as in dualistic corporate labor practices (see above) and in other structural outcomes of reform. It intensifies social and political polarization and disparity, heightens the social exclusion of marginalized groups, encourages tendencies toward the withdrawal of economically advantaged groups from local civil engagement, and augments a variety of related divisions (including ethnic) which undermine civic traditions and community solidarity. Social disengagement on the part both of “winners,” and of excluded or marginalized “losers,” encourages anomie and the breakdown of civic norms of acceptable behavior, self-responsibility, and mutual respect.

The problem of social disorder is the public face of social disintegration as society absorbs the externalities of readjustment and risk under economic reform. In a sense social disorder comprises an alternate public response to that of political opposition insofar as it manifests itself not so much in collective action as in a general breakdown of normative social control. Families disintegrate, crime increases, civil behavior diminishes, communities and associations lose their appeal and vitality, the percent voting in elections declines, political cynicism increases, and amoral individualism supplants community involvement.

These various manifestations of the depletion of social capital soon threaten governments with the dilemma of ungovernability, as best illustrated by the recent experience of China. Under Chinese reforms of state-owned enterprises (SOEs), corporate, work-unit, and residency-based eligibility for housing, pension, health care, transportation, education and other elements of livelihood support and security were lost to the many thousands of workers released from state service. These workers, along with the numerous rural migrants entering cities to find factory jobs, enlarged what is often referred to as the floating mass of intermittently employed workers

lacking legitimate claim to social support systems. The resulting social disorder (evidenced in growing crime rates, family breakdown, etc.) was officially acknowledged in a 2001 Central Party document as a critical social issue to be addressed through government action.

### **Elite Responses to the Institutional Tensions of Labor-Impacting Reform**

Setting aside for the moment the question of how these various institutional tensions, as well as the political pressures with which they are often associated, have *induced* strategic redirections in ongoing reform programs across the region, we now ask the more limited question of the manner in which elite groups have in fact sought to resolve these tensions. These strategic initiatives may provisionally be grouped into the following categories.

#### *The Corporate Proxy Option: Mandating Company Safeguards*

At the heart of labor market deregulation is relaxation of state-imposed rules governing terms of employment, including security of employment, conditions and compensation for work termination, required benefits accorded “regular” employees, limits on casualization, health and safety rules, etc. Policies seeking to *re-regulate* labor markets in order to cope with the social tensions of reform thus might be seen to signal a compromise and reversal of a key area of economic reform. Alternately, such re-regulation, including its broadening to encompass informal sector activities, could be seen as selectively reversing some aspects of reform in order to preserve gains in others, or, more generally, ensuring the social sustainability of the larger program through selective mid-course corrections.

Korea is something of an outlier among the developing Asian countries in the existing scope, penetration, and enforcement of job security as well as in the extent of social conflict engendered by current IMF-encouraged efforts to eliminate those protections through labor-market deregulation. In response to sharp labor opposition, the government has been forced to negotiate safeguards and compensating measures to cushion the impact of such deregulation.

By contrast, effective (enforced) labor regulation in Thailand is largely confined to state enterprise workers. In the private sector, comparable protections are afforded relatively skilled, core activity workers whose bargaining position secures employment protection even in the absence of effective state regulation.<sup>13</sup> Here, as in China, company-based social insurance is mandated largely within the state enterprise sector and among larger private firms. Thus, conflicts relating to privatization become a proxy for a politics of social insurance.

#### *The Welfare Option: Strengthening State-Organized Social Safety Nets*

This option, modeled on Western (especially Northern European) social protection schemes in place since the world depression of the 1930s, shares with the first option

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<sup>13</sup> For discussion of worker safety and health problems see Brown. Also “Samut Prakan plants target of inspections.” *Bangkok Post*, 5 February 2002. “Union wants higher payment for victims: production resumes at Delta Electronics.” *Bangkok Post*, 12 February 2002.

a relative incompatibility with the thrust of economic reform. Beyond provision of a very basic set of guarantees for those unable to support themselves at a minimal standard of living,<sup>14</sup> especially during times of economic crisis, Asian regional governments have generally eschewed this option in favor of others.

There are exceptions, to be sure. In Thailand, the populist Thaksin government has introduced a low-cost universal health care program while also extending the Social Security Fund to very small enterprises. It is unclear how effective or sustainable these programs will be.<sup>15</sup> But it is South Korea that offers the clearest exception. As noted above, in response to pressure on the part of strong unions for employment-linked social protections, the Korean government has backpedaled, renegotiated, and compromised in reform efforts to deregulate labor markets. Compromise in the deregulation of private sector labor markets has in part been accompanied by expansion of the (national) social security and welfare coverage of the Basic Livelihood Protection Law (BLPL), which provides for health, unemployment, pension, and worker compensation assistance to workers. In recognition of growing unemployment and expansion of casual, non-protected employment, BLPL coverage was extended in 1999 to include “atypical,” irregular, part-time, and dismissed workers. Institutional buttressing of social protection included establishment in 1998 of a Tripartite Commission to develop new forms of worker protection through discussion and consensus among representatives of government, employers, and trade unions (a move seen by more militant unions as partially displacing collective bargaining), and provision for union coverage and protection for teachers.

### **The Societal Safety-Net Option: Rebuilding Social Capital**

In the absence of expanded state protections or adequate corporate provision, governments may choose to bolster those private sector and social institutions to which the burdens of social reproduction, maintenance, and protection are being externalized under market reforms and/or labor market deregulation. This option sits easily with corporate and reform-driven state objectives, despite its necessary up-front costs, by enhancing the viability of external agencies and institutions capable of absorbing these costs and risks while also absolving the state of major long-term responsibility in this area.

The relative compatibility of the social capacity building option with the broader reform agenda explains the strong support such programs have enjoyed from the World Bank and Asia Development Bank over recent years. Indeed, growing multilateral support, programmatic as well as financial, for “social safety nets” in Asia

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<sup>14</sup> The World Bank has generally promoted state safety nets circumscribed by programmatic commitment to careful targeting, means-testing, and confinement to basic essentials.

<sup>15</sup> The Social Security Fund in fact covers only a small percentage of the total work force (6 million of a total of 33.08 million in 2000). The National Health Insurance Bill in fact undercuts the Social Security Fund’s health coverage through a proposal to replace SSF health insurance by the national health care program with its substantially reduced benefits. See “Budget chief wants wealthy out of scheme,” *Bangkok Post*, 4 January 2002. Also “Labor leaders dead against government social security plan,” *Bangkok Post*, 2 February 2002. “Second-class scheme for poor picked,” *Bangkok Post*, 16 February 2002. For a more general assessment of the sustainability of these programs, see “Government given thumbs-down,” *Bangkok Post*, 4 February 2002.



and the developing world, particularly in the context of the regional economic crisis of the late 1990s, has led some observers to suggest a tentative “leftward shift” among international agencies. However, it should be noted that by “social safety nets” are not primarily meant comprehensive state-organized social insurance programs. Rather they have referred to *social* capacity building through community development programs, micro-credit schemes for rural business, self-sufficiency projects, village fund programs, diversified agriculture, cooperatives, and other efforts to reinvigorate rural towns and villages.

Thailand best illustrates the social capital building option. Here are found favorable circumstances for the immediate application of this approach: especially including a moderately autonomous, economically viable rural community base and social institutions able to assume a heightened social role in the post-crisis recovery. Drawing on substantial assistance under World Bank and ADB social investment funding, the Thai government has initiated community-based infrastructure and village development projects including block development grants to 78,000 villages, support for agricultural diversification (to hedge market risk), provision of debt relief for farmers, establishment of new community banks, strengthening of “self-sufficiency communities” under an expanded Community Forestry program,<sup>16</sup> and expansion of micro-credit and SME business development programs. The social capacity building approach, now to be institutionally located in a new Ministry of Social Development and Human Security,<sup>17</sup> has been strongly supported by the King himself as part of his “self-sufficiency” movement. Most importantly, the populist-nationalist Thai Rak Thai government of Prime Minister Thaksin has placed community and social development at the top of its legislative agenda.

### **The Developmentalist Option: Enhancing Economic Competitiveness**

Here, governments seek to reduce social dislocation and workforce vulnerability by enhancing the competitiveness of domestic business and agriculture prior to the impact of external trade and investment liberalization. This may entail renewed efforts to boost levels of education and training of the workforce, to institute new forms of work organization in firms, to support corporate R&D and new methods of management, to create social and physical infrastructures for technology-intensive industry, and the like. It may also include promotion of self-employment, and a variety of other efforts to ensure successful engagement with and participation in more open international markets, thus presumably sustaining or expanding high-wage employment

While South Korea has traditionally pursued this option most vigorously, Thailand illustrates a more recent adoption of the developmentalist option as a means of

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<sup>16</sup> The community forestry programs comprise a partial reversal of previous policies under which farmers were simply evicted from government forest reserves. “Alternatives needed to national parks: hurting villagers living around forests.” *Bangkok Post*, 6 January 2002. “Displaced farmers to get previously allocated land: new approach to reform welcomed.” *Bangkok Post*, 7 January 2002. The self-sufficiency movement has led to renewed interest in environmental protection of Thailand’s dwindling forests as previously languishing community forestry programs have received growing official support.

<sup>17</sup> “Three more ministries to join line-up.” *Bangkok Post*, 10 January 2002.

accommodating the new pressures of economic reform in the context of crisis. At the heart of current Thai developmentalism is a program of targeted assistance and support for small to medium-sized domestic enterprises (SMEs), especially those linked to larger/foreign client companies as industrial suppliers. Indeed, this SME support program comprises a core element of the current coalitional success of the new government.<sup>18</sup> The program includes substantial state financial assistance, creation of a special SME board of the Stock Exchange of Thailand to mobilize private investment, expanded assistance in linking local firms with large and international companies as suppliers of high value products and services, and extension of SME assistance and loans to rural agro-business as well.<sup>19</sup> The developmental importance of this SME program is signaled by establishment of an SME Institute at the new Rangsit campus of Thammasat University and creation of an SME Supervisory Committee chaired personally by the Prime Minister.

In a sense, the Thai SME program comprises an effort simultaneously to address social and developmental tensions of reform, as suggested by the earlier discussion of the role of SMEs in Thailand's social capacity-building programs. While many SME development programs, especially those targeting rural businesses, largely address social issues, others in such sectors as electronics and autos effectively link political and developmental efforts to bolster domestic business and high-quality employment on the one hand, with continuing reform programs of trade and investment liberalization on the other.<sup>20</sup> It is perhaps for this reason that despite a seeming growth of state activism (including new industrial targeting), multilateral agencies (most prominently the World Bank), core country governments (esp. Japan), and international firms have welcomed and supported this initiative. Initially surprising was the very substantial support from the subsidiaries of transnational companies for domestic SME support programs. Suffice it to note here that these companies had invested heavily over periods of many years in the creation of local supply chains, and that their long-term interests became threatened by the collapse of local suppliers during the recent crisis.<sup>21</sup>

### **The Default Option: Slowing Reform**

Absent success in adopting these or other responses to the tensions of reform, governments may opt to slow the reforms themselves. In the Asian context, the most

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<sup>18</sup> For recent overview, see "MOI confident of giving full support to SMEs this year." *Pattaya Mail*, 21 January 2002. Also see "Launch a big hit with small firms: thousands queue for help from new fund." *Bangkok Post*, 17 January 2002. "BOI says tariff cuts must not be delayed." *Bangkok Post*, 12 January 2002.

<sup>19</sup> Under recent proposals, support will be given domestic SMEs that rely on local resources, including agricultural and other primary sector raw materials, in part to reduce reliance on imports, and arguably to complement broader efforts to increase domestic content in manufacturing under what could be seen as an explicit, if partial, revisiting of ISI, as seen in a recent statement from the Prime Minister's office encouraging promotion of "domestic production to substitute for imports." Quoted in "New drive to cut imports: Campaign to push use of local resources." *Bangkok Post*, 25 February 2002. Also see "SMEs new driver for growth: High-touch to replace high-tech." *Bangkok Post*, 26 February 2002; "New drive to cut imports: Campaign to push use of local resources." *Bangkok Post*, 25 February 2002.

<sup>20</sup> "The honeymoon is over: time for Thaksin government to produce." *The Nation*, 3 January 2002.

<sup>21</sup> In many cases, foreign companies ultimately became major shareholders in local firms through debt-equity swaps and simple buyouts, thus prompting renewed local fears of economic denationalization. Those fears in turn gave further impetus to government SME support efforts.

often compromised reforms relate to privatization of state-owned enterprise, reduction of utilities and public goods subsidies, and elimination of market-distorting agricultural price supports.<sup>22</sup> Given that such moves to slow or backpedal on reforms collide directly with the interests and objectives of important corporate and international elites whose continued support is essential, a public rationale for these measures typically refers to the need for delay in order to make necessary domestic adjustments, including the strengthening of social safety nets and the bolstering of the competitiveness of domestic business and agriculture. Indeed, as noted above, international trade agreements often allow more time for “developing” countries to meet mandated tariff reduction targets for precisely this reason. In the context of Thailand’s economic crisis, a further justification pointed to the overriding short-term goal of resuming economic growth.

China, Thailand, and South Korea have all pursued this short-term response to the tensions of rapid reform. In all cases, SOE privatization was slowed to varying degrees, in part in response to social problems and political opposition. In all cases, again, external trade liberalization was delayed as the social and economic impact became clear and nationalism found new voice. In Thailand, in particular, it was noted that the current global recession has encouraged a tilt toward inward-directed policy, as evidenced by the selective reintroduction of tariffs (e.g. car parts, electrical appliance components, industry machinery, soybeans) in response to growing demands from domestic business groups for increased protection from foreign competition<sup>23</sup> and in increased efforts to favor domestic over foreign investors in SOE privatization programs.<sup>24</sup>

But among these three countries, China perhaps best exemplifies this default option. Lack of coherent trade union pressure has minimized political pressure for creation of a state-organized social safety net to compensate for the institutional marginalization of locality and state-enterprise social insurance. The human resource development/developmental option has not seemed immediately relevant especially in the cost-driven export zones of southern coastal regions. And rural stagnation and social disorganization have discouraged social capacity-building initiatives. In this context, and faced with a growing threat of social disorder, the Communist Party has opted to slow or reverse elements of the reform program. The party’s Central Committee has reasserted the long-term goal of maintaining market socialism with continued party control over developmentally strategic industries. Chinese WTO negotiators successfully tempered U.S. demands for substantial reductions in agricultural subsidies to Chinese farmers. Privatization was slowed or compensated through various means to alleviate social distress. Banks were directed to maintain current levels of questionable loans in order to avoid further layoffs and closures.

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<sup>22</sup> In Thailand, government purchase programs to shore up agricultural commodity prices have continued despite official commitments to eliminate such market-distorting policies.

<sup>23</sup> See, e.g. “Government asked to help curb influx of Chinese-make products.” *Pattaya Mail*, 27 February 2002. Also “BOI says tariff cuts must not be delayed.” *Bangkok Post*, 16 January 2002.

<sup>24</sup> Economic nationalism in fact comprises an important basis for the success of the new government in cobbling together (if only temporarily) a populist coalition of local business, farm groups, students, trade unions, and NGOs.

In China more than elsewhere, powerful ruling factions (here, economic conservatives in the CCP Central Committee surrounding Jiang Zemin) supported moderating the pace of reform in the interests of social order, and against the opposing liberal faction under Zhu Rongji. This factionalism was especially divisive in the run-up to the leadership succession in 2003.

### **Concluding Note: Labor Politics and Social Capacity Building in Thailand**

We return now to the question of labor politics, placing this factor in the larger framework of changing elite reform strategies. This chapter has largely been confined to an overview of the institutional tensions of reform and of corresponding strategic responses to those tensions. It should now be asked how and to what extent worker opposition to the negative social outcomes of reform encouraged one or another of the various elite responses to the institutional tensions of reform.

As various factions and coalitions of economic and governing elites struggle to implement or block those aspects of reform which favor their particular interests, and then to implement strategically favored responses to emergent institutional dilemmas of reform, they must at the same time address political opposition from affected popular sector groups, including workers and farmers. In this complex situation, reform outcomes, or more accurately, the diverse *profiles* of strategic redirections that favor one or another combination of the foregoing institutional and policy responses, are inherently contingent, varied, and to a degree unpredictable. The following brief account of the impact of reform opposition on reform in Thailand is organized around the following general assumptions:

- 1) The policy impact of popular sector political opposition on reform programs depends on its magnitude, coherence, and directionality.
- 2) Political regimes (esp. the extent of democratic reform) influence all three of these characteristics of political opposition.
- 3) Intra-elite competition may magnify and channel worker opposition.
- 4) Institutional tensions of reform influence reform trajectories through their perceived impact on the strategic economic goals of dominant elites.
- 5) The interests of dominant elite groups (both corporate and state) are primarily attentive to strategic institutional interests relating to economic competitiveness and growth.
- 6) In pursuit of those interests, dominant elites seek to contain and channel non-elite political opposition.
- 7) Elite responses to the tensions of reform are channeled by existing institutional and structural realities.

These simplifying assumptions suggest a framework within which to explain divergent Asian reform trajectories. While it is not possible within the compass of this chapter to attempt a fuller account of reform trajectories in China, South Korea, and

Thailand, consider the following brief illustration of how one might utilize this framework in explaining the special prominence of social capacity building in Thailand. A subsequent chapter will offer a more comprehensive comparative explanation of reform trajectories across the three countries and Asia.

### **The Thai Case**

From the standpoint of workers in Thailand, apprehension regarding some of the negative outcomes of economic reform (particularly the externalization of reproduction costs and market risks to families and communities) was relatively muted during the uninterrupted period of dramatic economic growth during the 1980s to mid-1990s. But the onset of economic crisis quickly brought new fears and heightened political opposition in its wake. The crisis revealed the reform-augmenting vulnerabilities of workers and farmers to economic downturn and market risk. And under new pressures from the IMF and international donors, it imposed further burdens of economic stabilization and austerity programs on an already faltering economy while also accelerating, under loan conditionalities, some of the structural reforms themselves. In these ways was exacerbated an already frightening situation. And in this context, the whole reform program became politicized as never before. By mid-1998, large numbers of normally apolitical Thai workers and farmers had joined with NGO leaders, unions, university intellectuals, and oppositional politicians to debate and challenge core elements of economic reform, a process culminating ultimately in a resurgent populist-nationalism which swept new political parties and elites into office.

In Thailand as elsewhere, heightened worker opposition, in this case augmented and magnified both by on-going democratic reforms and by developmentally driven organizational reform of government,<sup>25</sup> increasingly raised doubts among corporate and government elites as to the political and social sustainability of the present course of reform. As the lock grip of reform orthodoxy was broken among even the most internationalist of government and corporate elites, the voices of those hitherto politically marginalized business and agricultural leaders whose interests were threatened by some of the reforms have increasingly joined with dissenting elite factions to challenge reform programs. Elite fissures have in turn brokered new populist/nationalist alliances with oppositional middle and working class groups, a process culminating in the electoral victory of Thaksin's Thai Rak Thai party in 2000. All in all, worker opposition, especially among Thai state-enterprise employees, small farmers, and organized private sector workers, was at least modestly successful in slowing privatization,<sup>26</sup> pushing for continued farm subsidies and debt relief, demanding new worker health and safety regulation,<sup>27</sup> pushing for creation of low-

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<sup>25</sup> Passage of the new constitution in October of 1997 was in part in response to growing political pressures during the early months of economic crisis. The more recent reassertion of state developmentalism has augmented the resources and policy roles of several of the functional and social ministries (e.g. Agriculture, Industry, Labor), which have traditionally afforded policy access to many of the private sector firms, organizations, and associations pushing for changes in reform agendas.

<sup>26</sup> For recent accounts see "Unions plan protest against privatization." *Bangkok Post*, 10 January 2002. "Protest fails to delay port sell-off deadline: union unyielding on benefits and jobs." *Bangkok Post*, 14 February 2002.

<sup>27</sup> Brown.

cost health services, and urging enactment of a new Labor Protection Act in 1998 which includes maternity leave and other important additions to previous provision of social insurance.

But having said this, it is also clear that labor opposition in Thailand has lacked focus and coherence. Unlike the case of Korea, wherein powerful and increasingly independent trade unions successfully pushed for expanded state-organized social insurance programs while delaying and ultimately negotiating more favorable terms under labor-market deregulation, Thai unions have not commanded the institutional leverage sufficient to play the lead oppositional role. Such unions, banned in the state sector where they continue on as “associations,” and only weakly established in the private sector, have by necessity had to forge political alliances with other popular sector groups such as urban slum dwellers, informal sector workers, farmers associations, university intellectuals, and NGOs in their effort to influence social policy. Farmers associations, conversely, have confronted the problem of clientelist domination by local elites by establishing coalitional links to urban community associations and labor organizations. NGOs and university intellectuals have further encouraged broadly based oppositional movements through very active leadership and participation, and through encouragement of encompassing social movements such as the Forum of the Poor, the Federation of Thai Farmers, and the like. By consequence, in Thailand, a Korean-style “politics of production” is replaced by a community-based “politics of collective consumption,”<sup>28</sup> broad cross-cutting appeals to nationalism, class-based (rather than sector-specific) social mobilization, and a strong emphasis on public subsidies and utilities, social and physical infrastructure, and sponsored efforts to enhance the viability of rural and town-based communities to which many unemployed workers returned during the crisis years. This latter move, as noted earlier, was given further force by the King’s campaign to encourage self-sufficiency and a return to values associated with Buddhism and rural traditions. Thus, unlike the South Korean case where unions pushed a focused agenda of expanded social insurance, Thai social movements pushed for assistance to families, farmers, small businesses and communities, often through traditional community development programs, with the result that the social capacity of family and community institutions might more adequately absorb the costs of market risk and social reproduction of labor. In this way, the nature of political opposition gave further encouragement to a social capacity building response in Thailand. And given the compatibility of such a response with longer term reform goals of dominant state and corporate agencies and groups,<sup>29</sup> all in the context of a remaining viability of rural and community institutions able to assume their supportive role,<sup>30</sup> it is understandable that the World Bank, Asian Development Bank, Japanese government, and even

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<sup>28</sup> By extension, one might describe Chinese worker reform opposition as a “politics of social disorder.”

<sup>29</sup> Unlike the case of China, wherein important ruling party factions remain far more ambivalent about economic reform, in Thailand, regional and then global recession (with declining exports) has encouraged a more inward-oriented, domestic consumption-led recovery effort on the part of the new government, thus further reinforcing social capacity-building. See “Policy critics told to shut up.” *Bangkok Post*, 1 January 2002.

<sup>30</sup> This contrasts the case of more highly urbanized Korea or of China wherein vast rural sectors have been socially and economically devastated.

some transnational corporations committed substantial resources in support of this response to the emergent tensions of Thai reform.







## CHAPTER 9

### **GLOBALIZATION AND NATIONAL IDENTITY: Managing Ethnicity and Cultural Pluralism in Malaysia**

ZAWAWI IBRAHIM

#### **Introduction**

Globalization both homogenizes and fragments. On one hand, it allows nations and citizens of the world to share common events, values and knowledge, often instantaneously thanks to advances in telecommunications and information technology. Its proponents tout globalization as a vehicle for promoting certain universal goals of governance, economic cooperation and civil society. Ideally, globalization should be an arena for all kinds of flows and exchanges<sup>1</sup> in which the local is synergized with the global and vice versa. In reality, of course, globalization has also fragmented identities and rekindled ethnic divisions once dormant under the control of nation-states. Ernest Gellner, an influential theorist on the cultural dimension of nationhood, once argued that for a given society to persist, it must be one in which its people “can breathe and speak and produce...the same culture.”<sup>2</sup> But now “in the age of fragmentation of the world system,”<sup>3</sup> notions of culture that were once constructed on the basis of the “national” must be reviewed. This new “crisis of identity”<sup>4</sup> affecting both the center and periphery of the world system, reflects the tenuous conception of a bounded notion of culture and the idea of a homogenizing national identity—the “imagined” oneness of the nation-state “community”<sup>5</sup> and its rather static, elitist and conflated conception of identity.<sup>6</sup>

In modern-nation states such as Malaysia, it is not the current globalization phase which has rekindled ethnic differences, nor for that matter, has it been responsible for the presence of cultural pluralism or multiculturalism in its midst. Indeed, multiculturalism and indigenous variants of cultural pluralism in the pre-capitalist civilization of the Malaysian region pre-dated the coming of western colonialism itself. The paradox is that it was the subsequent elaborations by colonialism upon this

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<sup>1</sup> Ulf. Hannerz, *Transnational Connections: Culture, People and Places*. London: Routledge, 1996.

<sup>2</sup> Ernest Gellner, *Nations and Nationalism*. Oxford: Blackwell, 1983, 38.

<sup>3</sup> Jonathan Friedman, *Cultural Identity and Global Process*. London: Sage, 1994.

<sup>4</sup> Friedman, 86.

<sup>5</sup> Ben Anderson, *Imagined Communities: reflections on the Origins and Spread of Nationalism*. London: Verso, 1983.

<sup>6</sup> Michael Herzfeld, *Cultural Intimacy: Social poetics in the nation-State*. New York: Routledge, 1997, 11.

“initial pluralism,” which gave rise to the ethnicism and competing ethnicities currently inherited by the modern Malaysian nation-state. The initial sections of this chapter will outline these historical legacies—first, the “initial pluralism,” then the creation of the classic “plural society”<sup>7</sup> in Malaysia, followed by the emergent “cultural division of labor” of the colonial economy, its class bases and the ethnicizing features of its politics and civil society. We shall then proceed to examine the main economic, cultural and political thrusts of managing ethnicity and cultural pluralism in Malaysia—hence the question of “national identity.” In the final part of this essay, we shall review their development in the light of the current globalization process.

### **Historical Legacies: Initial “pluralism” and the Colonial Creation of “Plural Society” in Malaysia**

Any intellectual discourse on post-colonial ethnicities and other related “national questions” of identity formation and management in the evolving Malaysian nation-state cannot be conducted without resorting to its historical base, which is rooted in its colonial history. Such a view is driven neither by a sense of nationalist fervor nor by a desire to blame colonialism for the current problems of globalization confronting the modernization of the post-colonial state. Indeed, if one were to extend the above discourse even further beyond colonial history, it would be revealing to note that cultural pluralism or multiculturalism, some of the trendy catchwords of today’s globalization, were already defining features of the pre-colonial formation of the region, even if these same buzzwords were missing from the local vocabulary then.

In 1998, the population of Malaysia was 22.2 million. Of that, 57.8 percent is comprised of those regarded as bumiputera (“sons and daughters of the soil”), or indigenous to the country. Most of these are Malays, at 49 percent of the total population. Non-Malay bumiputera, such as the Orang Asli, or indigenous “tribal” peoples, make up 8.8 percent of Malaysia’s people. Other groups include the Chinese (24.9 percent of the population) and Indians (7.0 percent). This ethnic mix has not fundamentally changed since Malaya, what is now known as Peninsular Malaysia or West Malaysia, obtained independence from Britain in 1957. One exception is the addition of “tribal” minorities from the Borneo provinces of Sabah and Sarawak, who were brought into the country when those regions were joined with Malaysia in 1963. Other additions include resident aliens, mainly Indonesian migrant workers, who represent a significant 7.2 percent of the population.<sup>8</sup>

#### *The Initial “Pluralism”*

The pre-colonial context of Malaysia was rooted in the maritime centers of the Malay Archipelago (often referred to as “the Malay World” or the “Malay-Indonesia World,”)<sup>9</sup> and Southeast Asia, whose trading system linked Malaysia to other parts of

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<sup>7</sup> J. Furnivall, *Colonial Policy and Practice*. Cambridge: Cambridge University Press, 1948.

<sup>8</sup> Cited in Abdul Rahman Embong, “The Culture and Practice of Pluralism in Postcolonial Malaysia,” in Robert W. Hefner, ed., *The Politics of Multiculturalism: Pluralism and Citizenship in Malaysia, Singapore and Indonesia*. Honolulu: University of Hawaii Press, 2001, 59.

<sup>9</sup> Barbara Watson Andaya and Leonard Y. Andaya. *A History of Malaysia*, 2<sup>nd</sup> edition, Hampshire: Palgrave, 2001; Robert W. Hefner, “Introduction: Multiculturalism and Citizenship in Malaysia, Singapore and Indonesia,” in Hefner,

Asia. This provided an interactive multicultural base. Cultural pluralism, amongst both the indigenous and non-indigenous communities in the region, and accentuated by the layering of the great traditions of Hinduism and Islam on the region's initial animistic base (often referred to as "syncretism"), was both fluid and evolving.

According to Malaysian scholar-historian Wang Gungwu, "the tradition of coastal pluralism evolved in island Southeast Asia, including the various states that became Malaysia, from earliest times...The port towns were conspicuous examples of cultural pluralism in the traditional milieu and were open to new and alien influences."<sup>10</sup> Wang emphasized how such pluralism was "an integral part of a local reality" which was adaptable in absorbing other layers of "pluralism" to come, even through colonialism. Hence "many Southeast Asian coastal and river line societies that became plural in character during the colonial period, or saw the degree of pluralism increase, did so with little social trauma or opposition. New plural elements were introduced quickly without great opposition. This reflected the nature and condition of native polities that expressed the inner social continuities in the gathering of human labor resources. The polities were predisposed by their geography and history to accept cultural pluralism..."<sup>11</sup> Anthony Reid, another international scholar-historian, notes that while most of the region's mercantile ports were Muslim principalities, "the Southeast Asian trading city was a pluralistic meeting-point of peoples from all over maritime Asia," attracting visitors ranging from "Arabs, Chinese (Muslim and non-Muslim), Indian Muslims and Hindus, tribal animists, some Christians, and even the occasional visiting delegation from Japan."<sup>12</sup>

Hefner, in his overview of the above, evokes notions of "flexible ethnicity" and "canopied pluralism," together with those of "cultural mobility and hybridity,"<sup>13</sup> and while cautiously aware that "there were clear limits in this pattern of flexible ethnicity,"<sup>14</sup> he nevertheless confirms that "for a comparative sociology of ethnicity and plurality, the 'permeable ethnicity' seen in the archipelago certainly ranks as one of the most distinctive features of Malayo-Indonesian tradition."<sup>15</sup>

Nor were these centers wanting in terms of local knowledge and ideals of what constituted just notions of governance and civil society. Of course, there were also modes of traditional exploitation and political tyranny, which characterized such "Asian feudalism" and its variants. Some of these traditional polities of governance had their own built-in checks and balances, though not necessarily always effective in ensuring "good governance."<sup>16</sup>

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ed., *The Politics of Multiculturalism: Pluralism and Citizenship in Malaysia, Singapore and Indonesia*. Honolulu: University of Hawaii Press, 2001.

<sup>10</sup> Wang Gungwu, "Continuities in Island Southeast Asia" in Jomo K.S, ed., *Reinventing Malaysia. Reflections on its past and Future*. Bangi: Penerbit Universiti Kebangsaan Malaysia, 2001, 24-25.

<sup>11</sup> Ibid.24.

<sup>12</sup> Cited in Hefner, 2001, 13.

<sup>13</sup> Hefner, 2001, 12-19.

<sup>14</sup> Ibid., 15.

<sup>15</sup> Ibid.

<sup>16</sup> See Yusoff Iskandar and Abdul Rahman Kaeh, *Sejarah Melayu. Satu Perbincangan Kritis dari Pelbagai Bidang*. Kuala Lumpur: Heinemann, 1985; Syed Hussein Alatas. "Religion and Modernisation in Malaysia," in Hans-Dieter Evers, ed., *Modernisation in Southeast Asia*. Kuala Lumpur: Oxford, 1973; Muhammad Yusoff Hashim, *The Malay Sultanate of Malacca*. Kuala Lumpur: Dewan Bahasa dan Pustaka, 1992; Andaya & Andaya, 2001.

In Malaysia, the Malaccan empire is normally touted as representing such an indigenous, cosmopolitan pre-colonial maritime center, which thrived on both pre-colonial hinterland and long-distance (global?) trading links and cultural pluralism, built upon its own system of local governance and traditional polity. Citing Ferdinand Braudel, Hefner suggests that there “was a pattern of economic ‘pluricentricism’ that, in its cultural diversity and mobility, resembled if anything the booming trade of the eastern Mediterranean in the early modern era. Even more than was the case in the eastern Mediterranean, this organization was conducive to interethnic collaboration and rich cultural exchange.”<sup>17</sup> Hence, in its initial contact with the western world, mediated by merchant capital, Malaysia was already a part of a Malayo-Indonesian world very much contextualized by a synthesis between a maritime trading economic base, and its own defining variants of multiculturalism, blessed by a Malay/Islamic polity and its attendant notion of governance.<sup>18</sup>

In Malaysia, how the above “initial pluralism” of the pre-capitalist formation was further elaborated upon by British colonialism via its different phases (i.e. from merchant capitalism to formal colonialism, and ultimately the formation of the colonial state) certainly had far-reaching implications in terms of creating the type of “plural society” which has now become the subject of much scholarly writings since its initial conceptualization by Furnivall.<sup>19</sup> It is also clear that the ongoing problems which confront the modern Malaysian nation-state in managing its competing ethnicities does not stem from the “initial pluralism” as such but rather from the subsequent colonial elaborations of the above. It is therefore crucial to examine in detail the outcome of these “colonial elaborations” in the Malaysian social formation.

*The Political Economy of the Colonial “Plural Society” in Malaysia: Ethnicizing Capitalism*

What constitutes the political economy of the new “plural society” created by colonialism? According to Wang Gungwu:

By the time the Europeans were ready to expand in the 19<sup>th</sup> century in search of markets and raw materials and to introduce new administrative structures to help them get what they wanted, *they had molded the pluralist heritage of the region to a shape that suited their needs. It was no longer an amorphous open pluralism, but one that recognized priorities (for example, entrepreneurial and technical over farming skills) and emphasizes new hierarchies that could be systematically manipulated (for example, religious and ethnic differences, new status and wealth differences, and ultimately class differences)...The earlier form of cultural pluralism was now placed in a new cultural framework—a modern secular culture based on control, efficiency, profitability, and accountability and*

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<sup>17</sup> Hefner, 2001, 15.

<sup>18</sup> For an excellent detailed analysis and elaboration, see Mohammad Yusoff Hashim 1992.

<sup>19</sup> Furnivall, 1948; For the Malaysian analysis, see: N. Freedman, “The Growth of Plural Society in Malaya,” *Pacific Affairs*. No.33; C. Enloe, *Multi-ethnic Politics in Malaysia*. PhD Thesis. University of California, Berkeley, 1967; J. Lent, ed., *Cultural Pluralism in Malaysia*. Special report No.14. Center for Southeast Asian Studies, Northern Illinois University, 1977; C. Nagata, *Pluralism in Malaysia: Myth and Reality*. Contribution to Asian Studies. 7. Leiden: E. J Brill, 1975; R. J. Vasil, *Politics in a Plural Society*. Kuala Lumpur: Oxford University Press, 1961.

*laid the foundations for the region to respond actively to the open world economy of the 20<sup>th</sup> century*.<sup>20</sup> (emphasis mine)

The accentuation of ethnicity in the new “plural society” over and above “class” (or “class consciousness”) often hides the fact that the political economy of such a society is still capitalism, albeit a “peripheral capitalism” created externally rather than a “central capitalism” which grew out of the internally generated dynamics of the “original transition”<sup>21</sup> from western feudalism to capitalism. It is a paradox that the legacy of the “plural society” left by colonialism for the new nation-state is that it has to deal with the political economy of a capitalist system but inherits problems that are predominantly expressed in ethnic political terms.

Stuart Hall makes an important clarification on the relationship between such ethnicism (or racism) and capitalism:

“Racism” [in our case, ethnicism] is not dealt with as a general feature of human societies, but with specific racisms...One must start from the concrete historical “work” which racism accomplishes under specific historical conditions—as a set of economic, political and ideological practices, or a distinctive kind, articulated with other practices in a social formation...(It) is not present in the same form or degree, in all capitalist formations: It is not necessary to the concrete functioning of all capitalisms. One needs to know how different racial and ethnic groups were inserted historically as active structuring principles of the present organization of society...Racial categories alone will not provide or explain these. What are the different forms and relations in which these racial fractions were combined under capital? Do they stand in significantly different relations to capital?... How has race functioned to preserve and develop these articulations?<sup>22</sup>

Based on the above guidelines, the following discussion will attempt to explore how ethnicity became “inserted historically” into the Malaysian social formation through its specific colonial experience.

#### *The “Cultural Division of Labor” of the Colonial “Plural Society”*

Building upon the above premise of “historical specificity,” it is useful to re-conceptualize the Malaysian “plural society” as a particular variant of peripheral capitalist formation whose creation can only be adequately theorized in relation to the “world-historical” expansion of capitalism into the periphery. Saul points to:

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<sup>20</sup> Wang Gungwu, 2001, 26 (emphasis added by author).

<sup>21</sup> I. Roxborough, *Theories of Underdevelopment*. Macmillan: London, 1979.

<sup>22</sup> Stuart Hall, “Race, Articulation and Societies Structured in Dominance,” *Sociological Theories, race and Colonialism*. Paris: UNESCO, 1980, 336-338. Emphasis added by author.

...a somewhat simultaneity of contradictions as illuminating the ideological terrain created by the uneven development of capitalism: there will be room both for “interpellations” attendant upon the class contradictions inherent in the reality of capitalism...and for “interpellations” attendant upon the “center-periphery” contradictions...an ethnic-interpellation is at least as likely as a ‘new nation’ interpellation...for ethnicity can often draw much more proximate and recognizable ingredients—language, symbols, ties of kin both real and imagined—in defining itself and recruiting subjects.<sup>23</sup>

Though agreeing with Saul, it is also argued here that the specific historical way in which capitalism is mediated into each peripheral formation will generate conditions more conducive to a certain “kind” of “interpellation.” Consequently, the dominant “ethnic interpellation,” which is the hallmark of the plural society, stems from the logic of capital itself under the specific conditions of its expansion into Malaysia. This does not necessarily imply that there is an inherent logical connection between ethnicity and the imperatives of capital. Ethnicity assumes importance because of its coincidence with the factors, which are deemed crucial for capital in a given instance, though not through conscious design or intention.

Similar to other colonial expansions, the extension of formal British political control into Malaysia (then Malaya or what is now Peninsular Malaysia/West Malaysia) in the 19<sup>th</sup> century was spurred by its need to consolidate the raw materials (initially tin, and later rubber), required for industrial capitalism at home. The state (i.e. the colonial state) at this time became purely an instrument of colonial capitalism.

One of its initial strategies was to “conserve” the position of the Malay traditional ruling class in their prerogatives over matters of religion (agama) and custom (adat) pertaining to their subject class (rakyat), the Malays, who were the indigenous peasantry. Such a strategy, as it turned out, worked well for capital: it divorced the traditional ruling class from the economic affairs of the modern colonial system by dismantling their “feudal” rights of surplus appropriation over the subject class (ranging from corvée labor, or *kerah*, to different kinds of tributes or tax (*uhti*). More importantly, it ensured a veneer of Malay sovereignty (the concept of Malay *daulat*), however symbolic, to appeal to the homo hierarchicus structure of Malay culture or to appease any potential discontentment arising from the peasantry. Indeed, the British learned a bitter lesson when they decided to ignore this ethnic Malay-feudal bond in the Malayan Union proposal of 1946, on the eve of Malayan independence.

For its labor requirements, capital, through the agency of the colonial state, was not forced to pry loose the indigenous peasantry from the rural land-based and subsistence sector but this by no means meant that the latter was insulated from the vagaries of capitalist penetration in other forms.<sup>24</sup> Both British economic and

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<sup>23</sup> John Saul, “The Dialectic of Class and Tribe,” *Race and Class*, 1(4), 1979, 356.

<sup>24</sup> See Zawawi Ibrahim, “Perspectives on capitalist penetration and the reconstitution of the Malay Peasantry,” *Jurnal Ekonomi Malaysia*, 5, June 1982; K. S. Jomo, *A Question of Class, capital, the State and Uneven development in Malaysia*. Singapore: Oxford University Press, 1986; R. Bach, “Historical Patterns of Capitalist Penetration in Malaysia,” *Journal*

educational policies were oriented towards “conserving” the Malay peasantry in the subsistence agrarian base, first, as producers of staple food for labor and capitalist reproduction in the capitalist sector of the colonial formation (tin mines and rubber plantations), and secondly, as colonial subjects provided with only a rudimentary education system, specifically oriented towards making them “good peasants”. Meanwhile, those from the Malay aristocratic class were given a privileged English education, which later on qualified them for direct recruitment into the junior ranks of the colonial civil service.<sup>25</sup> In the process, colonialism condemned the Malay peasantry, who were the majority of the Malay masses, to a marginal position of economic and educational backwardness—a situation, which for a long time contributed to the “ethnicization” of the poverty question and discourse in post-colonial Malaysia.

The strategy not to dislocate the Malay peasantry for its labor needs in the capitalist sector was by no means due to the benevolence of capital as such. In the tin mines, there was already a pool of immigrant Chinese labor organized and exploited by their own entrepreneurial countrymen from whom the British gradually wrested control. On the other hand, the relatively easy access to and control of Indian immigrant labor from British India also supported the basic “logic of Plantation production.”<sup>26</sup>

Such a situation, as has been argued elsewhere<sup>27</sup> was doubly advantageous for capital, for the colonial state could still make peasants “work for capital” in other ways (i.e. as unwaged labor), without having to incur the cost and burden of directly organizing peasant production. This was through the peasants’ role as food crop producers (indeed, the colonial effort to improve native agriculture in Malaysia was only “in a way of half-hearted, disjointed, and niggardly measures rather than a concerted program”<sup>28</sup>) and as “efficient, low-cost producers” in rubber smallholdings (which the Malay peasants had to independently resort to as a “rational” strategy to earn cash required for their household social reproduction in the colonial economy), or as a source of cheap and convenient seasonal labor on the plantations.<sup>29</sup> As summarized by economic historian Lim Teck Ghee:

It was not that British economic policy towards the different races in Malaya...herded Chinese and Indians to work in mines and plantations and compelled Malays to work in rice fields. That might have been possible in another day or age as happened with African labor in the Caribbean and America, in the late eighteenth century. In the more enlightened and laissez-faire Victorian society from

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*of Contemporary Asia*, 6(4), 1976; Lim Teck Ghee, *Origins of a Colonial Economy*. Penang: Universiti Sains Malaysia, 1976; Lim Teck Ghee, *Peasants and Their Agricultural Economy in Colonial Malaya 1971-1941*. Kuala Lumpur: Oxford University Press, 1977.

<sup>25</sup> William Roff, *The Origins of Malay Nationalism*. Kuala Lumpur: Oxford, 1967.

<sup>26</sup> Bach, 1976: 470-71.

<sup>27</sup> See Bernstein, 1976; Zawawi, 1982.

<sup>28</sup> Lim Teck Ghee, 1976, 141.

<sup>29</sup> See Zawawi, 1982; Zawawi, *The Malay Labourer: By the Window of Capitalism*. Singapore: Institute of Southeast Asian Studies, 1998.

where the colonial officials come, crude policies seeking to impose an ethnic division of labor would have been morally and politically difficult to sustain. But putting together the different parts of British policy and practice towards the various races in Malaya, it is difficult to avoid the conclusions that the British knew that some sort of rough division of labor amongst the races was being structured under their rule and that various policies they pursued reinforced or helped set up tendencies towards racial separation, whatever good intentions lay behind them.<sup>30</sup>

Thus out of the historical specificity of the colonial process in Malaysia emerges a structural feature, “the cultural division of labor,”<sup>31</sup> which is essentially an articulation between ethnicity and the economic division of labor in the colonial order. But fundamental to the whole process is not so much the logic between capital and ethnicity, but rather between capital itself under the specific conditions of the Malaysian colonial experience. What is also important to note is that a logical development of this historically evolved form of social relations between capital and labor (both waged and unwaged) is that at the level of production relations of the colonial economy, both in the peasant and capitalist sectors, labor becomes segmented along ethnic lines. As Lim Mah Hui concludes:

In the peasant agricultural sector, there is an obvious absence of a non-Malay peasantry and rentier class. Therefore, class relations could only develop within the Malay community, i.e. between Malay peasants and Malay landlords. Concomitantly in the capitalist sector, there is no Malay capitalist or labor class of any significance.<sup>32</sup>

What it also means is that because of the structural isolation between non-Malay wage labor in the capitalist sector and Malay unwaged labor in the peasant sector, no substantial basis of class unity could develop across ethnic lines at the level of production relations. But under these specific conditions of capitalist domination, it would perhaps be wrong to see capital as consciously seeking to pit one ethnic community against another. For what capital requires is not so much “the actual conflict between ethnic groups, but their inability to unite across class lines.”<sup>33</sup>

#### *The Class Bases of the “Plural Society”*

Thus one of the historical conditions established by colonialism in Malaysia is a situation that prevents the unity of labor or class across ethnic lines. But in capital’s confrontation with both fractions of labor (i.e. wage and unwaged labor/or non-

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<sup>30</sup> Lim Teck Ghee, 1984: 63-64.

<sup>31</sup> M. Hechter, “Group Formation and the Cultural Division of Labor,” *American Journal of Sociology*, 84(2), 1980.

<sup>32</sup> Lim Mah Hui, “Ethnic and class relations in Malaysia,” *Journal of Contemporary Asia*, 10(1-2), 144.

<sup>33</sup> Ibid.



Malay working class labor and Malay peasant producers) under the aegis of the colonial state, the logic of its class basis is never in doubt.

Under colonial rule in Malaysia, the introduction of the Torrens system of land registration promoted the idea of private ownership, rather than the traditional notion of cultivation as a condition for control, with radical implications for peasant relations to their means of production. In addition, since land now belonged to the state, the alienation of land also came to be governed by colonial policies, which favored capitalist interests. The “liberal” land policies not only made better land available and accessible legally to this particular class, but also encroached upon aspects of the traditional agricultural practices well adapted to the pre-colonial land system, i.e. shifting agriculture.<sup>34</sup> The asymmetrical relations between capital and peasant labor, and the articulation of this relationship through colonial state practices was manifested in other forms—its revenue system (low quit rents on land alienated to capital), its “system of dual agricultural taxation,”<sup>35</sup> and the predominant bias of colonial expenditures (such as infrastructure and agricultural development) to serve capital, rather than peasant interests.

The 1910 rubber boom demonstrated to the Malay peasantry the viability of smallholding rubber as a new source of cash income, since padi (rice) growing did not generate much surplus for sale.<sup>36</sup> The subsequent massive surge toward rubber cultivation by the peasantry, however, led to their collision with the class interest of plantation capital “since it meant higher land prices and competition with low cost producers.”<sup>37</sup> Then when rubber restrictions came down as a result of depressed prices, it was the peasant rather than the plantations, which “bore the main, if not the entire brunt” of the 1922 Stevenson Restriction Scheme and the 1934 International Rubber Regulation Scheme imposed by the colonial state.<sup>38</sup> The policies of new rubber planting and replanting which followed also generated a similar bias to capital or the wealthier peasants rather than the majority of the rural producers.<sup>39</sup> The struggle between capital and labor at this level of the colonial formation was essentially a class one, but it did not see the participation of non-Malay wage labor, who were isolated as proletarians and involved in their own “class contention” in the capitalist sector.

In the capitalist mode, the class struggle between non-Malay labor and colonial capital was more intense. Their “radicalization...was facilitated partly by oppressive labor conditions, and partly by anti-colonialist labor movements in countries from which the immigrants had come.”<sup>40</sup> With the relatively isolated conditions of the plantation, the Indians were slower in organizing themselves as compared to the Chinese, although once unionized, they “were among the most militant of the

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<sup>34</sup> K.S. Jomo, “Class Formation in Malaya: Capital, the State and Uneven Development,” unpublished PhD dissertation, Harvard University, Massachusetts, 1977.

<sup>35</sup> Lim Teck Ghee, 1976, 129.

<sup>36</sup> J. H. Drabble, *Rubber in Malaysia 1876-1922*. K. Lumpur: Oxford University Press, 1973, 72-73.

<sup>37</sup> Mohammad Ikmal Said, “The Dialectics of Ethnic and Class Conflicts: Some Illustrations from the Malaysia Case,” paper presented at UNITAR Conference, New Delhi. 11-17 March 1980.

<sup>38</sup> Jomo, 1977, 136.

<sup>39</sup> Lim Teck Ghee, 1977.

<sup>40</sup> Hua Wu Yin, *Class and communalism in Malaysia*. London: Zed Books, 1983, 49.

Malayan proletariat.”<sup>41</sup> The colonial state, in its effort to intervene in the interest of British mining capital, took measures to weaken the control of Chinese capital over Chinese labor. The declining need for extra-economic forms of labor control in no small way contributed to the earlier growth of “free labor” amongst the Chinese. And “the loosening of the ties of the Chinese working class with the Chinese capitalists eventually became reflected in exclusively labor organizations, which increasingly expressed themselves in working-class militancy and political radicalism.”<sup>42</sup>

After the 1930s, the British abandoned all forms of “extra-economic” coercion of labor, and though they turned to other means of disciplining Indian labor, free wage labor spread on the plantation. The 1930s Depression also marked a turning point for the non-Malay working class who began to regard Malaysia as their home, reinforced by the fact that the British had already begun to legislate against free immigration by that time. When tin and rubber recovered from the Depression and prices rose again, the rising cost of living brought out labor unrest and agitation. It was largely to counteract the growing influence of more militant labor leaders that the colonial government finally had to legislate to allow union registration in the 1930s.

It was at this point that the Communist Party of Malaya (MCP) was formed and “began to lead and organize the workers’ struggle.”<sup>43</sup> The Malayan General Labor Union (GLU), formed in 1934, became one of the most important united front organizations, which began to provide strong organizational alliances between the non-Malay working class coordinated by the MCP. After the Second World War, about 90 percent of all organized workers in Malaya were said to have belonged to GLU, which was not only sympathetic to communism, but also generally militant in nature.

Finally, to counteract the intense class struggle and non-Malay labor solidarity, the colonial state began to introduce various restrictive measures, which eventually succeeded in breaking up and de-registering the politically left-oriented union movement in the early post-war period. Indeed, even by 1940, the colonial government had banned all strikes, and many GLU cadres left for the jungle to join hands with the banned MCP to wage a guerilla war, which lasted until 1960.<sup>44</sup> During the emergency, the colonial government, under the tutelage of a Trade Union Advisor for Malaya (TUAM), “proceeded to reconstruct a more compliant and docile trade union movement.”<sup>45</sup>

On another front, colonial capitalism did not totally do away with the role of local elites and domestic economic classes so long as they remained subordinate to, and as compradors of foreign capital. Thus the western-educated Malay elites were also given a place as junior administrators in the colonial bureaucracy.<sup>46</sup> The role of Chinese

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<sup>41</sup> Ibid.

<sup>42</sup> Jomo, 1986, 176.

<sup>43</sup> Hua Wu Yin, 1983, 67.

<sup>44</sup> Ali Raza, “Legislative and public Policy Development in Malaysia’s Industrial relations,” *Journal of Developing Areas*, 3, 1969.

<sup>45</sup> M. Rudner, “Malaysian Labour in Transition: Labour Policy and Trade Unions 1955-1963,” *Modern Asian Studies*, 7(1), 1973, 21.

<sup>46</sup> Roff, 1967.

capital, dominant earlier in tin production, was soon subordinated to British capital.<sup>47</sup> At both the political and economic levels of the plural society, the role of the Malay elites and Chinese merchant capital was essential for the reproduction of the colonial political economy, and indirectly, of capital at the center.

### **Ethnicizing Politics and Civil Society in the “Plural Society”**

While historically there was little scope at the level of production relations for any significant class-based interaction and solidarity between Malay peasants and immigrant wage labor, at the level of exchange relations (i.e. the market), the interaction between Malays and non-Malays was instead an ethnic encounter between the peasantry and Chinese merchant capital. Here the indigenous peasantry (already neglected and insulated from the mainstream of development under colonial rule) was confronted by the relatively dominant position of those Chinese who had entrenched themselves, and were allowed to flourish in this circuit of capital as businessmen, traders, middlemen and shopkeepers.

It is here that Furnivall’s earlier analysis hits home, for it is in the domain of the “market place/relations” of the “plural society” where the social actors “meet,” that the economic inequalities appear to be based on ethnicity and are visible and emphasized as such in the daily life of the Malay peasantry. As Lim Mah Hui notes:

The Malay peasant producers come into contact with the non-Malay traders either as producers or consumers. At both levels, he (sic) is a price taker and exploited by traders who probably charge more for the consumer goods and intermediate inputs required and pay less for the agricultural products offered.<sup>48</sup>

A historian, the late J. M. Gullick made a similar observation:

The Malay peasant feels a tie of common interest with the upper class of his own community, rather than say with the Chinese vegetable gardener. The latter in turn feels that he has more in common with the Chinese dealer who buys his produce, despite the conflict of economic interest, than the Malay peasant or Indian plantation worker. There is yet no sense of peasant and working-class solidarity.<sup>49</sup>

Indeed the extension of the above ethnic “interpellation” into the politics and civil society of the plural society is a logical progression from the initial conditions laid down by colonialism. In this context, the “plural society,” is not simply the creation of capitalism, but is a “hybrid” variant of peripheral capitalism in which, as a result of a specific type of articulation of modes of production with ethnicity, has been

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<sup>47</sup> Jomo, 1986, chapter 7.

<sup>48</sup> Lim Mah Hui, 1980, 143.

<sup>49</sup> J. M. Gullick, *Malaya*. London: Ernest Benn, 1963, 228.

embedded the “conservation-dissolution” effects of a particular kind in its social formation.

The subsequent development of ethnicism into Malaysian political life and everyday subjectivities assumed a predictable pattern. The politics of Malay nationalism and decolonization found expression in strong ethnic terms, articulating the economic plight of the Malays (and its predominantly peasant-based community) as “the sons of the soil” (*bumiputera*) against the more economically dominant position of the immigrant communities, especially the Chinese.

Three Malay ethnic streams of nationalism came to the fore—the most prominent being those led by the English-educated elites (schooled in the exclusive “Eaton of the East,” the Malay College Kuala Kangsar, or MCKK) with close links to the traditional Malay ruling class. They formed voluntary organizations known as Malay Associations in the various parts of the country, and these were the forerunners of the dominant Malay ruling party, UMNO (United Malays National Organization) still in power today. UMNO embodied the interests of the Malay “administrators,” a narrow brand of Malay nationalism which was, however, successful in rallying Malay support as a champion and protector of Malay rights. However, “its political ascendance within the Malay community as a whole only occurred in the context of the severe repression by the colonial state of the emerging radical Malay nationalist movement.”<sup>50</sup>

But a little less than two decades before independence, there did emerge a “class-based” Malay challenge against the British-supported elites. These dissidents comprised of the Malay-educated intelligentsia, the KMM (*Kesatuan Melayu Muda*), drawn mainly from the peasantry (educated in the Malay vernacular of SITC or Sultan Idris Training College) and strongly influenced by the left wing of the Indonesian nationalist movement. They wanted to throw off the yoke of colonial rule through a union with Indonesia in a greater pan-Malaysianism (*Malaysia Raya*). This radical Malay intelligentsia was against the alliance forged between the British and the traditional rulers, mediated by the English-educated elites. As a result they came under cautious surveillance by the British and were also distrusted and feared by the Malays who found their views too radical.<sup>51</sup> It was obvious that they had misjudged the “ideological domination”<sup>52</sup> of the traditional ethnic and feudal rulers over the peasantry, especially their symbolic and protector role, as perceived by the Malay masses. Thus the “class contention” articulated by the Malay intelligentsia suffered from the same fate as the “class struggle” shown by labor against colonial capitalism and the colonial state. In 1945, this particular stream of Malay nationalism organized itself into a political party, the MNP (Malay Nationalist Party), with a radical youth wing, the API (*Angkatan Pemuda Insaf*), whose members later formed the Socialist Party after the British banned the MNP and API.

The religious stream of Malay nationalism was expressed by the *Hizbul Muslimin* party, the forerunner of today’s Islamic party, the *Parti Islam Se-Malaysia*, or PAS.

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<sup>50</sup> T. Salem, “Capitalist development and the Formation of Bureaucratic Bourgeoisie in Peninsular Malaysia,” *Kajian Malaysia*, 1(2), 1983, 87.

<sup>51</sup> Roff, 1967, 255.

<sup>52</sup> Hua Wu Yin, 1983, 63.

Hizbul Muslimin, which cooperated with the MNP, consisted of religious radicals espousing a reformist Islam that aimed to correct the economically backward situation of Malays, “to demand independence and self-determination to protect the dignity of the Malays (culture) and their identity based on Islam, and to prevent their economy from being dominated by immigrant communities”<sup>53</sup>. The ultimate goal was to mobilize the Malay peasantry to create “an independent Malay nation, the building of an Islamic society and the realization of a Darul Islam, an Islamic state.”<sup>54</sup>

Though divided, the groups were brought together in a temporary united front against the postwar “Malayan Union” proposal by the colonial government of 1946, which sought to reduce the political status of “feudal” rulers and open up citizenship rights to immigrant groups, brought a temporary united front amongst the above groups. Spearheaded by the western-educated elites, it was also at this time that 41 Malay associations from all over the country united themselves to form UMNO to assert the notion of Malay dominance (*ketuanan Melayu*). After negotiation and what later became known as the Federation of Malaya Agreement of 1948, the British reaffirmed the rights of the Malay rulers and “the special position of the Malays” in return for the protection of the “legitimate interests of other communities” and the liberal granting of federal citizenship to immigrant communities based on birth and residential requirements.<sup>55</sup> The whole process culminated in the granting of independence in 1957, but not before the British decided that UMNO was the more “moderate” representative of the Malay community in the new polity. The radical leaders of MNP and Hizbul Muslimin took an antagonistic course, as they did not want to compromise on the Malay position. Their movements were either suppressed or banned, and their leaders arrested, but they laid down the ideological bases of Malay opposition to UMNO in the postcolonial state. In the first General Election held in 1955, UMNO and two other ethnic parties, the MCA (Malayan Chinese Association) and the MIC (Malayan Indian Congress) combined under a political coalition—the Alliance (*Parti Perikatan*, the forerunner to the current ruling coalition, the *Barisan Nasional* or National Front)—to win and become the government of the day.

It should be noted that both the MCA and the MIC rested on narrow class bases. The former, from the various sectors of the Chinese community, was formed as a way of “countering the left-wing sympathies prevalent within the Chinese community,”<sup>56</sup> whilst the latter “represented a variety of small capitalist and professional interests,” hardly drawing “any support from the bulk of the (Indian) community, engaged in plantation labor.”<sup>57</sup> Under this compromise, which was enshrined in the 1957 Constitutional Bargain (which re-affirmed the terms of the Federation of Malaya Agreement), UMNO recognized Chinese and other immigrants’ “legitimate interests (economic rights), their rights to citizenship...and residence as well as their...freedom

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<sup>53</sup> Halim Salleh, “Globalisation and the Challenge to Malay Nationalism on the Essence of Malaysian Nationalism,” in Leo Suryadinata, ed., *Nationalism and Globalisation, East and West*. Singapore: ISEAS, 2000, 135.

<sup>54</sup> Cited in Halim, *ibid*.

<sup>55</sup> Cited in Halim, 135.

<sup>56</sup> Salem, 1983, 88.

<sup>57</sup> *Ibid*.

to preserve, practice and propagate their religion, culture and language.”<sup>58</sup> In the above “exchange,” “(t)he latter consented” to the Malays retaining their major symbols of their nation, that is, their sultans, their special position, their language (as the official language), and their religion (Islam as the religion). Special rights were therefore implanted in the Constitution (Article 153) to safeguard the special position of the Malays, or those who [based on Article 160(2) of the Federal Constitution] “profess the religion of Islam, habitually speak the Malay language, [and] conform to Malay customs.”<sup>59</sup> (In 1963, the special position of the Malays was extended to the other bumiputera of Sabah and Sarawak.<sup>60</sup>)

The above “ethnic bargain,” regardless of dissent among both Malays and non-Malays, remains as the most important legal charter and document, which spell out the essential guidelines for the nation-state to manage its ethnicity and national identity, and could only be amended via constitutional amendments, which have to be passed by the Parliament. What became the order of the day through political independence is the institutionalization of ethnic/communal politics as legitimate—a feature which has become resilient in the political culture and life of ordinary Malaysians. Thus for the Malays, voting for the multi-ethnic Alliance would be:

...essentially an expression of communal solidarity in which they reaffirm support of the Malay community, UMNO and recognize Malay leaders such as the Prime Minister and the State assemblymen...Support for the actual multi-ethnic Alliance, however, is dependent upon the continued perception of Malay political hegemony, preservation of Malay rights, and privileges, and favoritism shown toward them in the formulation of and execution of policies.<sup>61</sup>

On the Chinese side, Judith Strauch’s following observation of the periphery-center political linkages in Chinese village politics in Malaysia reflects another kind of “fragmentation” in the political culture of the Chinese periphery:

The Malay-dominated center shares bonds of common ethnicity with the Malay periphery, and bonds of common material interest with the Chinese elites who share power at the center, but in relation to the Chinese periphery an operational commonality is lacking. The Malay center dominates the Chinese periphery, but is able to offer little direct inducement or assurance of solidarity...It is left to the subordinate Chinese element of the center, from the ambiguous position of uncertain proximity to real power, to act as mediator and convey an aura of solidarity and inclusion embracing the Chinese periphery...Politics for Malaysian Chinese lacks an

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<sup>58</sup> Halim, 136.

<sup>59</sup> Ibid.

<sup>60</sup> Ibid., 139.

<sup>61</sup> Marvin Rogers, *Local Politics in Rural Malaysia*. Kuala Lumpur: S. Abdul Majeed, 1993, 931-932.

important normative/ideological dimension, and remains instead very instrumental in nature...The government builds on traditionally strong symbolic elements of the shared cultural “base”...Enthusiasm for Malaysian’s contemporary political culture is not easily rallied among Chinese Malaysians...The ultimate integration of Chinese local systems into full membership in a Malaysian political culture may continue to be problematic.<sup>62</sup>

But as this chapter has tried to demonstrate, it is wrong to divorce the explanation of the evolving communal politics and political culture from the configuration of the “class contention” that preceded this development. As Salem observes:

Yet the very formation of communally based parties, and the subsequent structuring of Malayan political life along communalistic lines, has itself been closely related to the class struggle that was taking shape. If it is evident that all three dominant political parties relied overwhelmingly on racially-oriented political programs and ideologies, this has developed in a specific context: in which UMNO, MCA, and MIC were attempting to counter organizations that were appealing to the class interests of the majority sections of each ethnic group. Communal politics can thus be seen as both, a consequence of evolving class conflicts, as well as a specific means of participation within that conflict...This suggests that the striking dominance of communalistic currents in the political life of the country ever since the early 1950s cannot be explained without reference to the consistent and regular suppression by the state of attempts at mobilization along class lines.<sup>63</sup>

### **From Independence to the May 13<sup>th</sup> Racial Riots in 1969**

Independence in Malaysia was essentially a class compromise between Malay political power, Chinese comprador, and British capital. This compromise took place in the context of an economy dominated by foreign and Chinese interests, but with a predominantly underdeveloped Malay peasant base and the absence of a Malay bourgeoisie. Under the uneasy initial political coalition, the state, dominated by the Malay ruling faction, came under pressure. Its legitimacy with the Malay voters rested on solving two essential problems—Malay (rural) poverty and the absence of a Malay capitalist class.

With the first, it was not until 1965 that budgetary allocations actually accorded primary importance to rural development despite it being the second prong of the post-colonial state development strategy. Since 1965, land development took the

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<sup>62</sup> Judith Strauch, *Chinese Village Politics in the Malaysian State*. Cambridge: Harvard University Press, 1981, 13-14.

<sup>63</sup> Salem, 1982, 88-89.

largest slice in the rural development allocation. Despite the expenditure increase, “its strategy [limited by the class interests of the ruling party as well as the type of development orientation adopted] saw the increasing deterioration of the majority of the population, both in relative and absolute terms...The average income of the bottom 10 percent of all households decreased by 31 percent, from \$49 to \$33 per month, between 1957–1970...income inequality worsened for the total population as well as within each community, with the Malays taking the lead.”<sup>64</sup>

With the second problem, the postcolonial state was constrained by the nature of compromise underlying the alliance, marked by “first, the basically ‘laissez faire’ policies towards accumulation by foreign interests and by the predominantly Chinese local capitalist, and second, the free hand allowed to the predominantly Malay bureaucratic middle class to expand and consolidate itself.”<sup>65</sup> Efforts to create a Malay capitalist class were “circumscribed by the State’s long-standing commitment to ensure continued capital accumulation by the stronger and longer established business interest.”<sup>66</sup> Though no Malay capitalist class was created, these efforts, however, helped to increase “the ranks of the Malay middle class, especially the bureaucratic middle class, “which provided important support for the nascent bureaucratic capitalists.”<sup>67</sup> The latter began to make their presence felt by the mid-1960s, and the first serious expression of their demand and plight was made at the first Bumiputera Economic Congress in 1965, attended mainly by Malay bureaucrats and politicians. The discontent that was increasingly felt by the aspiring petty bourgeoisie was articulated mainly in racial terms: “Bumiputeras are in disarray and diffident (sic), dismayed and behaving like foreign interlopers in the urban non-Bumiputera commercial and industrial life. They have seen so many failures in the face of stiff competition from a strongly-entrenched ‘enemy.’”<sup>68</sup>

In the 1968 Second Bumiputera Economic Congress, there was an open demand for an end to “an unregulated competitive capitalist system,” for it was clear that “the overall creation of a viable class of Malay capitalist was thwarted,” unable to challenge the “hegemony” of foreign capital and local Chinese capital aligned with it. Indeed by 1969, the year of the major racial riots in Malaysia, only 1.5 percent of the total share capital in public limited companies was owned by Malays, compared to 22.5 percent by the Chinese and 62.1 percent by foreign capital.<sup>69</sup>

As Jomo remarks: “This limited Malay participation...could not possibly satiate the rising expectation of the rapidly growing (Malay) middle class. Frustrated ambitions in such quarters fueled the apparently ‘extremist’ challenge in the late sixties by the so-called ‘Young Turks’ or ‘Ultras’ against the established UMNO leadership. The latter was depicted as having sold out ‘Malay interests’ to non-Malays, especially

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<sup>64</sup> Lim Mah Hui and Canak, “The Political Economy of State Policies in Malaysia,” *Journal of Contemporary Asia*, 11(2), 1981, 213. Parentheses added by author.

<sup>65</sup> K. S. Jomo, “Restructuring Society: The New Economic Policy Revisited,” paper presented at Persatuan Ekonomi Malaysia Conference, Kuala Lumpur, 1978, 42.

<sup>66</sup> Ibid.

<sup>67</sup> Ibid., 6.

<sup>68</sup> Cited in Lim and Canak, 1981, 213.

<sup>69</sup> Ibid.



Chinese.”<sup>70</sup> On the other hand, “Confronted with an avowedly pro-Malay government which appeared to be advancing the interests of Malays over those of other races—e.g. by provision of ‘special rights,’ ethnic employment quotas, etc.—non-Malay resentment against the system and the policies of the State also took on an ethnic character.”<sup>71</sup>

In the meantime, apart from the declining household incomes already mentioned, the fluctuating and declining prices of the 1960s also generated widespread rural landlessness and rural-urban migration, further swelling the urban population size. The industries established under the 1957–1969 Import Substitution Industrialization strategy could not absorb this flow of jobseekers, as they could no longer be sustained by domestic demand. Unemployment in general rose and urban unemployment in particular soared to 10 percent and though this mainly affected the Chinese, it also accentuated the “Malay migrants.”<sup>72</sup> The latter “were encouraged to perceive their exclusion from jobs as being racially motivated,” especially confronted by the “impregnable” appearance of non-Malay private capitalist sector.<sup>73</sup>

The above economic and social conditions made the urban areas “a hot bed of political ferment.”<sup>74</sup> The absence of a viable Malay capitalist class was increasingly blamed for the lack of job opportunities for a burgeoning Malay proletariat in the city. At the same time, the Chinese were also frustrated with their ineffectiveness due to the weak MCA position in the Alliance Coalition, which had resulted in the strengthening of two predominantly Chinese-based political parties, the Democratic Action Party (DAP) and the Gerakan.<sup>75</sup> Indeed, in the 1969 general elections, the MCA lost in the urban areas to the Gerakan and the DAP, whilst in a number of rural constituencies, Malay opposition, the Islamic Party, and PAS won these seats from UMNO. The rest is history—victory marches by DAP supporters in the capital city triggered the 1969 race riots, after which parliamentary rule and democracy was suspended for several years with the imposition of emergency rule by the state under the NOC (National Operations Council). The May 13<sup>th</sup> riots provided the state with the opportunity to move more aggressively to promote and cater to the demands of the aspiring Malay capitalist faction through the formulation of what is now known as the NEP (New Economic Policy). But, the NEP was only the beginning of a state interventionist approach to resolve problems, which, at the level of subjective domains, were increasingly perceived as being based on ethnicity or “race.” Clearly at the heart of the issue was the problem of a new nation-state seeking its own version of national identity and unity, and coming to terms with its competing ethnicities and multiculturalism. As we shall see, economic strategies alone would not be adequate for the above purpose.

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<sup>70</sup> Jomo, 1978, 7.

<sup>71</sup> Jomo, 1977, 42–43.

<sup>72</sup> Redha Ahmad, “Capital Accumulation and the State in Malaysia,” *Ilmu Masyarakat*, 8, 1985, 17.

<sup>73</sup> Jomo, 1977, 42.

<sup>74</sup> Redha, 17.

<sup>75</sup> R. S. Milne, and D. K. Mauzy, *Politics and Government in Malaysia*. Vancouver: University of British Columbia Press, 1978, 142–164.

## Post-1969 Strategies of Ethnic Management in Malaysia: From Ethnicism to Developmentalism

The following analysis has to be contextualized in the bigger discourse of the practice of democracy and governance in Malaysia. In this undertaking, we are very much guided by two perspectives. The first is by Crouch who characterizes the Malaysian polity as an “ambiguous regime,” which is “neither democratic nor authoritarian but contains elements of both.”<sup>76</sup> I sense that the author is careful in trying to avoid the trappings of both orientalism and essentialism by acknowledging some elements of social relativity and pragmatism, when he states that “the regime has exhibited democratic tendencies in some respect and authoritarian tendencies in others. The result, however, has been a political system that combines both in a mutually supporting way.”<sup>77</sup> The reminder by Crouch is important since the Malaysian strategy of ethnic management has not been without resort to certain political controls through legal and constitutional means (such as the Emergency Powers, the Internal Security Act (ISA), the Sedition Act and Official Secrets Act, and the University Colleges Act). In the latest use of these powers, leaders of the Reformasi movement against Prime Minister Mahathir Mohamad, and those involved with “militant Islam” were detained without trial under the ISA.<sup>78</sup>

The other perspective is provided by Francis Loh Kok, who sees the Malaysian post-1969 reconstruction as characterized by the movement from an ethnic nation to developmentalism, while still continuing the elements of state “political controls” as mentioned in Crouch. He treats the 1990s as a decade characterized by issues of “cultural liberalization, the withdrawal from public debates of ‘sensitive’ issues, and the privatization of ethnicity...to be located in (the) context of economic liberalization, rapid growth and the replacement of the NEP with the NDP (National Development Policy).”<sup>79</sup> He sees the irony of the NEP, an ethnic-based affirmative action policy, which however has “facilitated the transition from the discourse of ethnicism to the discourse of developmentalism.”<sup>80</sup> In this respect, it has led to the growth and subsequent expansion of a multi-ethnic new middle class, which not only has a dynamic and political space—civil society (?)—of its own,<sup>81</sup> but which, to some extent, has also led to a de-emphasizing of ethnicity. Indeed, this new middle class has subsequently become an important player in the new consumer culture of globalization.<sup>82</sup> With the benefit of hindsight, it is also clear that the positive

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<sup>76</sup> Harold Crouch, *Government and Politics in Malaysia*. Ithaca and London: Cornell University Press, 1996, 12.

<sup>77</sup> Ibid.

<sup>78</sup> Ibid., 77-95.

<sup>79</sup> Francis Loh Kok Wah, “Developmentalism and the Limits of Democratic Discourse,” in Francis Loh Kok Wah and Khoo Boo Teik, eds., *Democracy in Malaysia: Discourses and Practice*. Richmond, Surrey: Curzon, 2002, 44-45.

<sup>80</sup> Ibid., 42.

<sup>81</sup> Clive Kessler, “Alternative Approaches, Divided Consciousness; Dualities in Studying the Contemporary Southeast Asian Middle Classes,” in Abdul Rahman Embong, ed., *Southeast Asian Middle Classes* (op.cit.), 2001.

<sup>82</sup> Abdul Rahman Embong, “Social Transformation, the State and the Middle classes in Post-Independence Malaysia,” in Zawawi Ibrahim, ed., *Cultural Contestations: Mediating Identities in a Changing Malaysian Society*. London: ASEAN Academic Press, 1998; “Beyond the Crisis: The Paradox of the Malaysian Middle class,” in Abdul Rahman Embong, ed., *South East Asian Middle Classes: Prospects for Social Change and Democratization*. Bangi: Penerbit Universiti Kebangsaan Malaysia, 2001(a); “The Culture and Practice of Pluralism in Postcolonial Malaysia,” in Robert W. Hefner, ed., *The*

dimensions of the ethnic-based Malay affirmative action policies, through the NEP, compare favorably to the Indonesian situation. Political observers note for instance the violent anti-Chinese Indonesian backlash and response to the economic crisis after the fall of Suharto compared to the absence of such expressions in Malaysia. Despite the Asian financial crisis and the prevalence of “money politics,” cronyism, and other problems, reviews have shown that the “modernization project” of the Malaysian nation-state,<sup>83</sup> though still unfinished, has been able to manage quite satisfactorily its competing ethnicities, and to a large extent, deliver the economic goods to its multiethnic citizens. This is not to deny the fact that in the process of empowering the major ethnic groups, there still exist socio-economic minorities within both bumiputeras and non-bumiputeras, who have been marginalized by mainstream developmentalism.<sup>84</sup>

Paralleling the economic strategies of ethnic management the National Cultural Policy was formulated in 1971, about the same time as the NEP.<sup>85</sup> This represented the first “official” attempt to “regulate” the so-called “unregulated multiculturalism” in Malaysia, deemed to be at the root of the May 13<sup>th</sup> riots. But conceptually, the National Cultural Policy (NCP) was too essentialist in its approach, based on an idealized civilizational notion of Malay culture. After the NEP had transformed and reconstituted “Malay culture” in diverse ways, the whole representation of “Malay” in the NCP, even to the most ardent Malay, is becoming more questionable and problematic. In the current era of globalization, it can also be observed that the dominant ethnicizing discourse of the NCP has often been alternated by the assertion of a demotic discourse which is more in line with the global pitching of Mahathir’s notion of a Malaysian nation—Bangsa Malaysia—and the 2020 Malaysian Vision (Wawasan 2020), i.e. a move towards the creation of a Newly Industrialized status by 2020. The above transition has also been mediated by the “Look East” Policy, and a series of different globalizing discourses—Inter-Civilisational Dialogues, the Asian Renaissance and the Asian values debate.<sup>86</sup>

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*Politics of Multiculturalism. Pluralism and Citizenship in Malaysia, Singapore and Malaysia.* Honolulu: University of Hawaii Press, 2001(b).

<sup>83</sup> See Khoo Kay Jin, “The Grand Vision: Mahathir and Modernisation,” in Joel S. Kahn and Francis Loh Kok Wah, eds., *Fragmented Vision* (op. cit.), 1992. For detailed elaborations and analyses of the benefits of the NEP to the both the Chinese and Malays, see Halim Salleh, 2000 and Francis Loh Kok Wah, 2002.

<sup>84</sup> Zawawi Ibrahim, “An Anthropological Perspective” in eds. Pathmanathan, M & Haas, R., *Political Culture. The Challenge of Modernisation*. P. Jaya: Friedrich Naumann & Centre for Policy Sciences, 1995 (a); “Epilogue: A Southeast Asian Discourse on the Environment,” in Victor King, ed., *Environmental Challenges in Southeast Asia*. London: Richmond: Curzon, 1995(b); Zawawi Ibrahim, ed., *Kami Bukan anti-Pembangunan. Bicara Orang Asli menuju wawasan 2020*. Bangi: Malaysian Association of Social Sciences, 1996(b); “The Making of a Subaltern Discourse in the Malaysian nation-State: New Subjectivities and the Poetics of Orang Asli Dispossession and Identity,” in Zawawi Ibrahim ed., *Cultural Contestations: Mediating Identities in a Changing Malaysian Society*. London: ASEAN Academic Press, 1998; “Regional Development in Rural Malaysia and the Tribal Question,” *Modern Asian Studies*, 34(1), February, 2000(a); *Voices of the Crocker range Indigenous Communities Sabah*. Universiti Malaysia Sarawak: Institute of East Asian Studies, 2001(a); “Pengantar,” ed. (Zawawi Ibrahim) *TUNTUT (Kumpulan Cerpen Orang Asli)* by Akiya. Kuala Lumpur: Dewan Bahasa & Pustaka, 2001(b).

<sup>85</sup> Zawawi Ibrahim, “Anthropologising “National Culture” in Malaysia. Representing and Contesting Culture in the Age of Fragmentation” in *Soumen Antropologi* (Special issue) 2. 2000(b).

<sup>86</sup> Khoo Boo Teik, “Nationalism, Capitalism and Asian Values,” in Francis Loh Kok Wah and Khoo Boo Teik, eds., *Democracy in Malaysia: Discourses and Practices*. Richmond, Surrey: Curzon, 2002.

Globalization has also given a new fluidity to the bounded notion of cultural and national identity. Through the Ministry of Tourism, the representation of Malaysia in public forums and festivals has predominantly been a showcasing of Malaysian multi-ethnicity and its cultural pluralism. Hence, at the official level, the active promotion of tourism by both state agencies and the federal government has projected the image of multicultural fluidity between ethnic boundaries. The Tourism Ministry's latest successful showcasing of its multi-ethnic "open-house" celebration draws from different ethnic and religious festivals, which have been reorganized into a major tourist event.

It has been argued that in an age where societies have become "globally connected and culturally intertwined" multiculturalism will become a more pertinent and relevant force.<sup>87</sup> Others have noted how heterogeneity is now becoming part of the conscious identity of modern societies, reformulating "new hybrid forms"<sup>88</sup> in which "the concepts of sameness and difference are presented as compatible rather than opposed."<sup>89</sup> Thus, "in recent decades, national cultures are often quite openly presented as heterogeneous and fluid communities," no longer requiring the state to project the image of a culturally homogenous entity as proposed by some of the theories of nationalism.<sup>90</sup>

In the field of arts, theater, films, and other popular culture, such as music, the globalization process has also seen in Malaysia the beginnings of interactive multi-cultural synergies taking place beyond the "market-place" boundaries that were originally conceptualized in Furnivall's notion of "plural society." Lately, such inter-ethnic forays have also extended into "new social spaces" engendered by globalization, such as the cyber-cafes that mushroom all over the country. Indeed, "when it comes to globalization and transnational connection youth cultures are in the forefront of theoretical interest: youth, their ideas and commodities move easily across national borders, shaping and being shaped by all kinds of structures and meanings."<sup>91</sup> In Malaysia, the increasing role of this new generation cannot be underestimated in terms of its different positioning and repositioning in civil society, to be able to synergize with and promote some form of "local multiculturalism" in the context of globalization. The multicultural synergies in the popular culture and arts of the country, the diverse cosmopolitanism, and "hybridization" that have been evolving independently of state cultural policies and intervention<sup>92</sup> will most certainly contribute to the future development of a Malaysian type of multiculturalism. In the field of international sports (through the Commonwealth Games, World Cup Hockey and Youth Soccer tournaments, golf competitions and Formula One racing), Malaysia

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<sup>87</sup> Manuel Castells, *The Information Age: Economy, Society and Culture*. Volume 2, *The Power of Identity*. Oxford: Blackwell, 1997, 3.

<sup>88</sup> Young, cited in Penelope Harvey, *Hybrids of Modernity: Anthropology, the Nation-State and the Universal Exhibition*. London and New York: Routledge, 1996, 69.

<sup>89</sup> Penelope Harvey, 1996.

<sup>90</sup> Ibid.

<sup>91</sup> Helena Wulff, "Introducing Youth Culture in Its Own Right: The State of the Art and new Possibilities," in Vered Amit-Talai and Helena Wulff, eds., *Youth Cultures: A Cross-Cultural Perspective*. London and New York: Routledge, 1995, 10.

<sup>92</sup> Zawawi, *Popular Culture at the Crossroads: Malay Contemporary Music*. Monograph Series of the Academy of Malay Studies. Kuala Lumpur: Universiti Malaya, 1996(a).

has also been asserting itself as a global host. But sports is also an opportunity to project the image of a multicultural national “team” with the exhortative chant *Malaysia Boleh* (Malaysian Can!) and sporting representatives such as a popular indigenous sprinter known as the “Flying Dayak”. This global imaging also takes shape in Malaysia’s construction of “globalizing symbols” such as the twin Petronas Towers, the futuristic-looking Kuala Lumpur International Airport, the modern Light Rail Transit system, Cyberjaya (Malaysia’s version of the Silicon Valley), and the Multi-Media Super Corridor, designed as an agglomeration of high-tech enterprises, research and development centers, and a multi-media university.<sup>93</sup> These projects epitomize the Mahathir-led Malaysian nation-state’s political will and capacity to synergize with the new knowledge-based economy and the new technologies of globalization. An indirect outcome of all these is the inculcation into its citizens, especially the younger generation, the sense of a new Malaysian consciousness that transcends ethnic identity, and the pride of being a Malaysian who is also a pro-active globalizing member of world society.

One of the key challenges concerning national identity in the context of globalization is upholding and sustaining a “moderate Islam” in the wake of the September 11<sup>th</sup> terror attack on the United States. In this respect, the leadership has promoted the idea that a brand of Islam that is in harmony with the progress of the ummah (the Muslim community), not only spiritually but also materially, is also compatible with developmentalism. In the past, the state had to demonstrate an “official” commitment to Islam by appropriating a veneer of symbols and values into the domain of public administration. Over and above that, it also gave economic value and other “added values” to Islam.<sup>94</sup> The state’s “consumption” of Islam has predominantly been a defensive reaction to the opposition PAS in order to convince the public (especially Malay voters) of the “Islamic” basis of its policies (which sometimes revolves around the controversial question of whether Malaysia is an “Islamic state”). Indeed, there was a point in the UMNO-PAS relationship when the latter branded UMNO members and affiliated companies as “infidels.”

It would appear that PAS, owing to a combination of factors and circumstances, has effectively managed to assert itself as a competing source of legitimizing authority with regard to Malay cultural and customary practices (as in the party’s ban on public performances of traditional Mak Yong musical dance and wayang kulit shadow

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<sup>93</sup> Claudia Derichs, “Competing Politicians, Competing Visions: Mahathir Mohamad’s *Wawasan 2020* and Anwar Ibrahim’s *Asian Renaissance*,” in Ho Khai Leong and James Chin, eds., *Mahathir’s Administration: Performance and Crisis in Governance*. Singapore: Times Books International, 2001.

<sup>94</sup> See A. B. Shamsul, “Identity Construction, Nation Formation, and Islamic Revivalism in Malaysia,” in Robert Hefner and Patricia Horvath, eds., *Islam in an Era of Nation-States: Politics and Religious Renewal in Muslim Southeast Asia*. Honolulu: University of Hawaii Press, 1997; Shamsul, “Consuming Islam and Containing the Crisis: Religion, Ethnicity, and the Economy in Malaysia,” in Mason Hoadley, ed., *Southeast Asian-centred Economies or Economics?* Copenhagen: Nordic Institute of Asian Studies (NIAS), 1999; Shamsul, “Why is Malaysia not Disintegrating? Islam, the Economy and Politics in Multiethnic Malaysia,” *Project Discussion Paper no.14/2001*. Institute for East Asian Studies, Gerhard Mercator Universität Duisburg, 2001(b); Mohamad Abu Bakar, “Islam, Civil Society and Ethnic relations in Malaysia,” in Nakamura Mitsio, Sharon Siddique, and Omar Farouk Bajunid, eds., *Islam and Civil Society in Southeast Asia*. Singapore: ISEAS, 2001; Sharifah Zaleha Syed Hassan, “Islamization and the Emerging civil society in Malaysia: A Case Study,” in Nakamura, et.al., eds., *Islam and Civil Society in Southeast Asia* (op. cit.); Syed Ahmad Hussein, “Muslim Politics and the Discourse on Democracy” in Francis Lok Kok Wah et. al., eds., *Democracy in Malaysia* (op. cit.), 2002.

puppetry in PAS-controlled Kelantan state). In this respect, Islam, as practiced by UMNO will always be a bone of contention. In the past, UMNO has resorted to “political controls,” such as detention under the Internal Security Act, when dealing with Islamic dissidents. A prime example was its resort to police force in the 1985 Memali incident, in which a number of civilians were killed when police attempted to arrest a dissident cleric. Long a source of enmity between Islamists and UMNO, the Memali issue made headlines again recently when the government directed its national television channel, RTM, to air its “documentary” version of the incident. With the global fight against terrorism now the order of the day, the government apparently feels confident in tearing at this old wound again to justify to the public its use of “political controls” against Islamic militancy as well as to gain political capital by putting PAS on the defensive.

In the last election, the Barisan Coalition led by UMNO was returned to power with a two-thirds majority in parliament, but with a significant erosion of Malay support. The sacking of Deputy Prime Minister Anwar Ibrahim and the process by which he was detained, investigated, and put on trial reflected rather poorly on Mahathir’s governance. This was a crucial factor in overwhelming PAS victory in the two predominantly Malay states of Kelantan and Terengganu. The Anwar saga also threw UMNO into a crisis of confidence, drove a wedge into Malay political culture, and, almost overnight, transformed it from a culture of *setia* (loyalty)<sup>95</sup> to one of confrontation and street protest.

For a while, there seemed to emerge a new Alternative Coalition in the making, with PAS combining forces with the new KeAdilan party, Parti Rakyat, and the DAP to assert a new challenge to the Barisan Nasional coalition. But the future of the new coalition is uncertain, clouded by apparent leadership squabbles and ideological differences. One persistent issue that keeps the PAS and DAP “marriage” tenuous is the question of an Islamic state. For the current leadership, the main challenge in its “moderate Islam” approach is to heal the wounds of Malay voters.

The pendulum of Malay ethnic relations and politics may have shifted from inter-ethnic to intra-ethnic rivalry. In the context of the post-September 11<sup>th</sup> global order, the Mahathir-led government’s emphasis on “moderate Islam” is not only a response to the needs of developmentalism and the priorities of globalization, but also an attempt to de-legitimize the PAS version of Islam and its hold on Malay voters. Indeed, the ability of the current Malaysian nation-state to balance developmentalism and multiracialism (multiculturalism?) while at the same time remaining “Islamic” in the face of a globalization that persistently homogenizes Islam, depends very much on its continuing capacity to rekindle and sustain such Malay support.

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<sup>95</sup> See Chandra Muzaffar’s Malay protector thesis. Muzaffar, *Protector*. Penang: Aliran, 1979.



## CHAPTER 10

### THE ROLE OF CIVIL SOCIETY IN DEMOCRATIC CONSOLIDATION IN ASIA

SUCHIT BUNBONGKARN

#### Introduction

One of the often-raised questions concerning democratization and democratic consolidation is whether the elites or the public make and consolidate democracy. The role of elites in creating democracy has been emphasized in many studies. Likewise for democratic consolidation, which, as one study suggests, depends on the emergence of a unified elitist group that commits itself to democratic rule.<sup>1</sup> Nevertheless, what has happened in Asia in recent years suggests that one cannot overlook the contribution of the public masses to democratization and democratic consolidation. In Indonesia, the Philippines, South Korea and Thailand, without the participation of the masses or civil society, democratization would not have been achieved. Although their role was only supportive, it lent popular weight to the democratic transition and helped deepen democracy. As these countries now consolidate their democracy, it is interesting to note to what extent civil society has contributed to the process.

#### What is civil society?

The concept of civil society is rather ambiguous and means different things to different people. As Lehmbruch puts it, “Quite often, when ‘civil society’ is used in the political literature or the media, it is no longer clear what exactly the respective author has in mind. The denotations of ‘civil society’ have undergone significant changes over time and in different national contexts. As a consequence, the meaning of the concept in the contemporary discourse is fraught with considerable ambiguity”<sup>2</sup>. At any rate, the concept of civil society is now accepted in modern political science as an intermediary between the private sector and the state. Thus, civil society is distinguished from the state and economic society, which includes profit-making enterprises. Nor is it the same as family-life society. Civil society, as Larry Diamond defines it, is “the realm of organized social life that is open, voluntary,

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<sup>1</sup> Larry Diamond, *Development Democracy: Toward Consolidation*, Baltimore: The Johns Hopkins University Press, 1999, p. 218.

<sup>2</sup> Gerhard Lehmbruch, “Germany”, in Yamamoto Tadashi, ed., *Governance and Civil Society in a Global Age*, Tokyo: Japan Center for International Exchange, 2001, p. 230.

bound by a legal order or set of shared rules.”<sup>3</sup> Civil society involves private citizens acting collectively to make demands to the state or to express in the public sphere their interests, preferences and ideas or to check the authority of the state and make it accountable. With this in mind, civil society may encompass a wide range of organizations concerned with public matters. They include civic, issue-oriented, religious, and educational interest groups and associations. Some are known as non-governmental organizations, or NGOs; some are informal and loosely structured.<sup>4</sup>

### **Civil Society and Democratization**

In the democratization of Asian countries, notably South Korea, Indonesia, The Philippines and Thailand, the role of elites’ was pre-eminent, but would not have been achieved without the active participation of civil society organizations. They generated political pressure for reform, leading to the liberalizing of political systems and eventually bringing down dictatorial regimes. In Thailand, the economic success of the 1980s and early 1990s gave strength to the middle class and led to demands for more openness, political liberalization and democratization. Thailand had been known as a strong state. State institutions, especially the bureaucracy and the military, had played an eminent political role in slowing the development of societal organizations and interest groups. Nevertheless, because of rapid economic growth, the business sector, the urban middle class, and civil society organizations were strengthened. Several issue-oriented organizations including the Confederation for Democracy and environmental groups sprang up to stimulate democratic aspirations among the urban middle class and to fight for democratization. In addition, the semi-democratic government of Prime Minister Prem Tinasulanond (1980-1988) had facilitated the growth of political parties and helped legitimize participatory institutions. His rule accelerated the decline of the military’s political role. Although it made a comeback in 1991, the military had to withdraw from politics within a year because of fierce resistance by the urban middle class led by the Confederation of Democracy and other political groups.<sup>5</sup>

After 1992, the strength of civil society organizations continued to grow and is reflected in their success in campaigning for political reform in the late 1990s. The democratization that began in 1992 did not lead to a stable, incorruptible democratic government. Political parties remained weak and fragmented. Political corruption, including vote buying and other forms of electoral fraud was on the rise. Civil-society organizations responded by launching campaigns for further political reform and a new constitution. An organization called Pollwatch was set up in 1992 by then Prime Minister Anand Punyarachun to monitor elections. The Confederation for Democracy spearheaded the campaign and captured public support. The urban middle class had already been unhappy with the growing political corruption and government instability. Eventually, the new Constitution was promulgated in October 1997, marking a significant step toward political reform and democratization.

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<sup>3</sup> Diamond, op. cit., p. 221.

<sup>4</sup> Ibid., p. 222.

<sup>5</sup> Suchit Bunbongkarn, “Thailand’s Successful Reforms”, *Journal of Democracy*, October 1999, p 57.



In the Philippines, democratization occurred without economic growth. The strength of civil society and the democratic consciousness that had been firmly ingrained in the Philippine public helped bring down the dictatorial rule of Ferdinand Marcos. The mobilization of hundreds of thousands of citizens to reclaim the stolen 1986 election through the National Citizens Movement for Free Elections (NAMFREL)—set up to monitor the election—forced Marcos out of power. Without NAMFREL's strength, Marco's massive election fraud would not have been documented and publicized and the mobilization would not have been possible.<sup>6</sup> In addition, the strength of civil society helped maintain democratic rule throughout the term of President Corazon Aquino, who survived several coup attempts. Civil society flexed its muscles again in the successful campaign to oust Joseph Estrada for corruption.

In Indonesia, democratization was made possible through socio-economic changes that included the rise of the middle class and the expansion of civil society. Wider access to education was another impetus. These were the results of economic growth. As Donald Emmerson points out, economic growth in Indonesia during the Suharto era facilitated polycentrism in society, making political monopoly by those in power impossible.<sup>7</sup> This polycentrism was characterized by the rise of civil society organizations, the growth of ethnic groups and public consciousness. Although economic growth under the Suharto's New Order had helped legitimize his regime, especially during the 1980s, by the 1990s this economic success had exposed the expanding middle class to the foreign values such as democracy. The New Order was established to lend legitimacy to the military-dominated government in the name of political stability and economic development. But the expanding urban middle class and ethnic groups empowered by economic success were increasingly critical of Suharto's authoritarian government. Violent clashes with the government became increasingly common.<sup>8</sup> On the eve of the 1997-98 economic crisis, Indonesian society had become more complex and the people's changing attitudes were no longer consistent with the New Order.

The economic crisis led to Suharto's downfall and the establishment of democratic rule. The environmental changes favoring democratization mentioned earlier did not automatically or immediately lead to democracy. Had the economic crisis not occurred, Suharto's downfall would have been prolonged. Despite much evidence of his corruption, nepotism and inefficiency, he continued to survive for some time. But the rupiah's downfall, the economic crash, the collapse of financial institutions, and Suharto's inability to cope with the disasters had deligitimized his rule.<sup>9</sup> A discredited Suharto was finally forced to resign.

In South Korea, the role of civil society in fostering democratic transition was reflected in a series of student and worker demonstrations against authoritarian rule and demanding liberalization and democratization during the latter part of the 1980s. The middle class also exerted strong pressure for true democratic change. The

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<sup>6</sup> Diamond, op. cit., p. 235.

<sup>7</sup> Donald Emmerson, "A Tale of Three Countries" *Journal of Democracy*, October 1999, p. 38.

<sup>8</sup> *Far Eastern Economic Review*, February 15, 1996, p. 21.

<sup>9</sup> Emmerson, op. cit., p. 44.

strength of the middle class, students and workers was the result of South Korean success in economic development and industrialization. The South Korean middle class and workers were traditionally compliant and reserved. Only the students were politically active and had demonstrated previously against the authoritarian regime. But after a long period of economic growth, the attitudes of the middle class, labor, and civil society groups became less tolerant of repressive rule. The mobilization of a civil society coalition of student and labor organizations, journalists, writers, academics, religious groups, and peasants against the authoritarian regime of Chun Doo-hwan weakened his rule. The government responded with further repression, resulting in an explosion of labor and student unrest. Chun's legitimacy was gone and his close associate, Roh Tae-woo broke ranks with the regime. These events gave Chun no choice except to comply with the public demands to establish full democracy with direct election of the president.<sup>10</sup>

### **Civil Society and Democratic Consolidation**

In these emerging democracies, one of the challenges facing them is how to make democratic consolidation possible. Democracies in Indonesia, the Philippines, South Korea and Thailand are still weak, vulnerable and inefficient. They need to be strengthened and consolidated. The question is: how can civil society contribute to the democratic consolidation in those emerging democracies?

What is democratic consolidation? Democracy is consolidated when a reversal to authoritarianism is impossible. For some, democracy is consolidated when it is made stable, vibrant, efficient and accountable. At any rate, it is a complex process and the factors contributing to democratic consolidation include structural and cultural dimensions.

First of all, commitment to democracy among the elites is an essential condition for consolidating democracy. Democracy cannot take hold if the elites are not committed to democracy and do not have faith in democratic principles. These elites include top decision-makers, organizational leaders, politicians, top government officials, intellectuals, leaders in the private sector, and opinion shapers. Their commitment to democracy will make a reversal to an authoritarian rule difficult, if not impossible. If the elites split in their political beliefs and a large number favor authoritarianism, a reversal to authoritarian rule is possible. However, the elites' belief in democracy is not enough; they must act in accordance with democratic norms. For instance, if they resort to restrictions on political participation and freedom in order to maintain their political supremacy, this cannot be seen as a commitment to democracy.

Second, at the level of the mass public, democracy is consolidated when a majority of the people believes that democracy is the best form of government and is suitable for that particular time. In emerging democracies, this belief is not firmly entrenched in the public mind. As a result, some groups are often encouraged and manipulated into using violence or other nondemocratic methods in fighting for their cause.

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<sup>10</sup> Diamond, op. cit., p. 235-236.

Third, the commitment to democracy by organizations and groups is also essential for consolidating democracy. Political parties, social movements, civil society organizations, interest groups, and other social organizations can play an important role in strengthening and deepening democracy. They can serve as a mechanism for political participation and mobilization, disseminating democratic principles and norms.

Civil society organizations can help consolidate democracy in a number of ways. As Diamond points out, civil society can play a role in checking, monitoring and restraining the exercise of power by the state and holding it accountable.<sup>11</sup> This function can reduce political corruption, which is pervasive in emerging democracies. It can force the government to be more accountable, transparent, and responsive to the public, which strengthens its legitimacy.

Civil-society organizations can play a vital role in making the elites and the mass public more committed to democracy by disseminating democratic principles and ideas. Organizations that are involved specifically in the protection of civil rights and freedoms, as well as political reform, can be particularly important in this regard.

Another role civil-society organizations play in consolidating democracy is by stimulating political participation. In several emerging democracies, voluntary political participation is not always high. Political indifference and apathy may slow down the consolidation process. Civil-society organizations can supplement the role of political parties in encouraging people to get involved in politics, especially as voters in elections. Political participation strengthens the legitimacy and the institutionalization of democratic government, which are essential for consolidation.<sup>12</sup>

Civil society's role in empowering the people is well recognized. Civil-society organizations in many democracies perform the function of representing the interests and asserting the rights and power of the people. In several new democracies such as Indonesia and Thailand, many interest groups are loosely organized and unable to articulate their interests. Civil-society organizations can come in and help interest groups and people to fight more effectively for their interests, thereby empowering them.<sup>13</sup>

Civil-society organizations also can train future political leaders. Those who are involved in the activities of such groups learn how to organize and motivate people, publicize programs, reconcile conflicts and build alliances. This teaches people to deal efficiently with political challenges and can mold competent political leaders.<sup>14</sup>

### **Civil Society and Democratic Consolidation in Asia**

In Thailand, one of the major challenges facing the country is how to consolidate democracy. Thai civil society had been successful in democratizing the political system and forcing certain reform programs including the enactment of the 1997 constitution. But in the area of democratic consolidation, civil-society organizations have not done much. During the Chuan administration (1998-2000), some civil

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<sup>11</sup> Ibid., p. 239-240.

<sup>12</sup> Ibid., p. 242.

<sup>13</sup> Ibid., p. 244.

<sup>14</sup> Ibid., p. 245.

groups, notably the Assembly of the Poor, organized farmers demonstrations and protests against state power to achieve social justice. Nonetheless, when Thaksin Shinawatra came to power in January 2001, the state had become stronger again. His government has launched populist policies, for example, providing practically free medical service to everyone, giving money to every village to set up a village fund, and declaring a debt moratorium for farmers. His policies should in principle strengthen civil society and hence democratic consolidation. But since the government also has put restrictions on press freedom, shown intolerance toward criticism and dissent, and co-opted some press and civic groups, civil society is coming under increasing government control and there is concern that Thailand will move from a liberal democracy back to merely an electoral democracy.

In Indonesia, the democratic government continues to be weak. President Megawati Sukarnoputri has been unable to create a stable and effective democratic government. The party system is still fragmented and unable to produce stable support for the government and make the government more responsive to the needs of the people. Indonesian civil society continues to be fragmented. Ethnic and religious conflict continues to pose a dangerous threat to national integration. There is no strong and efficient civil society to pull the people and societal groups together. In fact, the problems facing democratic consolidation in Indonesia are too complicated to be dealt with by any civil society organization. Democratic consolidation in Indonesia depends perhaps primarily on political leadership, the political party system, and the military. What Indonesia needs is capable political leaders who can reconcile conflicts among various ethnic and religious groups. Political parties need to develop to be more effective at producing support for government. At the same time the military should avoid the temptation to take over the government. Although Indonesian democracy is not firmly entrenched, it still carries popular legitimacy and a mass uprising is likely if the military acted to reverse the democratic trend.

Philippines civil society showed it was strong enough to force Estrada to step down, another example of the active monitoring of the performance of state and political leaders by Philippine social groups. However, the Philippine state is still weak and unable to assert its autonomy from powerful business and societal groups. The commitment to democracy by Philippine elites and the mass public is unquestioned. But Philippine democracy cannot truly become entrenched until a viable and vibrant civil society develops that can counterbalance the state, as well as influential business and societal groups that want to dominate the state.

In the case of South Korea, the economic crisis of 1997 accelerated the democratic transformation in the sense that the authoritarian developmental state was put under scrutiny and the government monopoly of the public cause was challenged.<sup>15</sup> Civil-society organizations became recognized as a “third power” when the crisis of 1997 destroyed middle-class confidence in political leadership, causing civic groups to become stronger and more critical of the establishment. Korean civil society has empowered the people, making them more assertive in the political arena.

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<sup>15</sup> Jung Ku-hyun and Kim In-choon, “Republic of Korea”, in Yamamoto, *op. cit.*, p. 59.

Hence their voice is now heard more often. But there are problems to be overcome if civil-society organizations are to be more effective at representing public opinions. They need to be more open for broad participation by ordinary people. At present, most are dominated by the elite. Such organizations also must be financially independent and able to resist co-optation by politicians or big business. Financial independence does not mean that civil-society organizations cannot accept financial support from the government or other agencies, but there should be no strings attached.

### **Conclusion**

Civil society has an important role to play in consolidating democracy. It needs to be autonomous and able to resist manipulation by the state and business interests. A strong and reliable civil society can represent the interests of the people and the community and serve as a check on the use of power by the state. There are signs of an increasing strength and assertiveness in civil society in the democracies in Asia. It will be stronger, more autonomous and play a meaningful role for democratic consolidation in the future. Civil-society organizations will be more active in stimulating the political awareness of the mass public and encouraging their political participation to protect their own interests. Through these efforts, governments can become more accountable and responsive to the people's needs, and the elites and the mass public will be more committed to democracy. Hence, democratic consolidation will be achieved.

The governments in Asian democracies can accelerate the development of civil society. Instead of using a corporatist model to co-opt civil society and restrict its autonomy, states can provide assistance to civil-society organizations to perform their functions more effectively. This assistance should be in form of financial support and training of personnel. In addition, civil society's autonomy should not be violated. The governments should not be afraid of free civil society since it encourages governments to be more honest, accountable, transparent and responsive to the public demands, which will win the support of the people and strengthen their legitimacy.





## CHAPTER 11

### INTERNAL SECURITY, DEMOCRATIZATION, AND GLOBALIZATION IN SOUTH EAST ASIA

MICHAEL HAAS

#### Introduction

The stability of the Cold War era vanished more than ten years ago. Within Southeast Asia, the threat of war seems to have ended, but domestic stability has been elusive in some countries despite otherwise favorable trends, and globalization has taken much decision-making authority out of the hands of politicians. The question that this chapter will examine is how the political and economic systems within each country in Southeast Asia currently serve to help or to hinder internal security, given the considerable ethnic, religious, and socioeconomic diversity in their societies and the impact of globalization.

The key concepts to be considered are democracy, economic prosperity, globalization, diversity, and internal security. Conventionally, “democracy” exists when elections permit an alternation in office by competing political parties while majority rule coexists with minority rights. Since most of countries in Southeast Asia are not industrial democracies, “economic prosperity” can be viewed as achieved when an economy in the region grows and income equality increases. Problems of “internal security” are present when violent political protests or secessionist movements tax the ability of governments in the region to respond. “Globalization” refers to the gradual transformation of the world economy into a single market with an absence of barriers to trade, wherein the role of politics in economics will ideally be to handle trade disputes and realistically to backstop any dysfunctional social impacts.

#### Democratization and Internal Security

Which forms of democratic rule best suit aspirations for economic prosperity and internal security within Southeast Asian countries? Various theoretical formulations developed to provide *a priori* templates for assessing conditions during the Cold War may or may not be relevant today, but one in particular can be explored to provide a certain amount of insight—mass society theory.

According to mass society theory, political systems become unstable due to two alternative conditions. One scenario is that when economic progress is too rapid, political stability can be jeopardized as the masses clamor for an equitable share of economic progress, yet lack a responsive democratic framework. The second way in which a mass society exists is when rigid authoritarian rule frustrates the aspirations of the masses, which are not allowed to have independent political channels; in Eastern Europe, the result was low morale and a resulting decline in productivity that bankrupted Communist countries. In both cases, civil society is nonexistent, that is, no independent institutions exist between the people and the government. Accordingly, can greater democratization, that is, an increased vitality on the part of institutions between the masses and the elites, solve internal security problems?

Most Southeast Asian countries eloquently illustrate problems of mass society today. **Brunei**, an absolute monarchy, is too small and too prosperous to have dissident elements seeking a more democratic system or a more open economy. Although there is no vibrant civil society, Brunei is not a typical mass society and it is therefore excluded from this discussion.

In **Indonesia**, rapid economic progress in the early 1990s whetted the appetite of the masses for a larger share of the pie; the authoritarian rulers were seen as corrupt, and the streets filled with protesters until the ruler stepped aside in 1998. Opposition forces prevailed in an election, but the new constitutional regime is unable to contain discontent because a stable civil society has yet to emerge. The continuing rebellion in Aceh and discontent in Irian Jaya and the Moluccas prove that the new and weak political system has not established a political framework for dialog and compromise with dissident elements. The establishment of interest groups and political parties as channels for political dialog will take time; so immediate security problems cannot be handled through a democratic process. Religious strife in the Moluccas has abated, as dialog has taken place, though not all elements are satisfied. The Acehnese and the Irian Jaya Melanesians want political autonomy more than dialog, but the regime is using force, fearing total dismemberment since East Timor was granted independence.

A footnote to the last paragraph is the new country of **East Timor**, which voted for independence from Indonesia in 1999. Under U.N. tutelage, East Timor is on the way to becoming a democracy with a civil society. Since virtually the entire population was in favor of independence, the only internal security problem consisted of the Indonesian army's response to the plebiscite, and an international force has handled that problem.

**Laos** has so crushed civil society that there are no channels for public discontent over myriad complaints, many of which are associated with the fact that the government does not really know how to run a free market economy. The source of recent bombings is unknown, but one suspicion is that the most likely source of violent protest would come from those frustrated by the lack of economic opportunities.

For **Vietnam**, where the economy is improving despite a government that clings to socialism, internal security problems come from two sources. One is the maltreatment of ethnic minorities, that is, hill tribes without access to a political



pipeline to air grievances. The other source is the sporadic terrorism perpetrated by expatriate Vietnamese based in Southern California. Outside observers often urge more democracy to calm the troubled waters, but those in power know that they would be voted out, so they resist democratization and are reasonably successful thus far in containing internal security problems by maintaining a police state.

**Myanmar** had an election in 1990, but the ruling military clique decided not to accept the overwhelming mandate to install the victor, Aung Sang Suu Kyi, knowing that a democratic regime would exact revenge against the excesses of the outgoing dictators. Government efforts to negotiate a face-saving power-sharing arrangement with Aung Sang Suu Kyi have been in progress, but honoring the outcome of the 1990 election is the bottom line for the public. Political repression both encourages internal strife and discourages international investment, except in energy sources. Internationally organized economic boycotts and public discontent are translated into a lack of economic vitality, though China has moved into the breach with aid and investment aimed at promoting Chinese more than Burmese interests. Meanwhile, some provinces are in open rebellion, notably the Karen minority, which is ethnically Thai. Military solutions are often tried, but the rebellion continues. So long as there is no civil society, the people are all held hostage by the government.

**Singapore's** government likewise has no use for civil society. Singapore exempts foreign businesses from various regulations, but local businesses are much less free, and the authoritarian political system keeps a firm lid on any dissent. The establishment of private organizations requires governmental approval, but permission is granted only if they are nonpolitical. Opposition parties are only able to disseminate views contrary to the government during short election campaigns, and their candidates are sued into bankruptcy afterward. Since the local population is well educated, the best and the brightest either work for foreign corporations in subordinate roles or siphon off their discontent by migrating to Australia, England, or the United States. Internal turmoil is thus minimized because some of the population is affluent enough to relocate elsewhere, and many immigrants to Singapore are willing to take their place to enjoy a relatively prosperous life. Were true democracy to arise in Singapore, workers would demand higher wages as a reward for their high productivity, but the country's economic success might end if cheap labor were no longer available to be exploited. The island republic may go down in history as the world's first prosperous totalitarian state, though the prosperity comes from unregulated foreign businesses.

A civil society has been active in **Malaysia** for some time, and the ruling coalition contains progressive parties whose supporters vote along racial lines. Within Malaysia, domestic unrest has not reached the level of an organized internal security problem in recent years. Instead, longtime Prime Minister Mahathir bin Mohamad has sought to cripple prospects for any challengers to his position. The latest adversary, former Deputy Prime Minister Anwar Ibrahim, is now in jail on charges of corruption and sodomy that many in the public believe were trumped up. Accordingly, disparate opposition elements have teamed up but thus far have not gained electoral success. The main beneficiary of the current unease is a radical Islamic party, which might seek to impose Islamic laws onto the entire multi-religious and multi-ethnic population. In

short, democracy provides a platform for an opposition element that might end civil society, but democracy still prevails. The political leaders keep a delicate balance between too much and too little dissent, and protest has thus far been nonviolent. Thus, Malaysia's polity is democratic but fractionated, yet internal security issues are modest.

The **Philippines** has the longest history of a civil society within Southeast Asia, though with an unpleasant intermission during the Marcos years. The New People's Army (NPA) and Muslim separatists on Mindanao provide the two main sources of internal insecurity. The activities of the NPA provided an excuse for the coup in 1972, but the increase in NPA activity because of the coup eventually sealed Marcos's fate in 1986, when People's Power emerged in the streets. The NPA is a minor player today, as the political system accommodates more dialogue. Meanwhile, various deals have been brokered with Muslim separatists, but they have later unraveled. Currently, American assistance has been enlisted to wipe out terrorist Muslims linked to Osama bin Laden. Nevertheless, the contentious politics of the country, including removal from office of a popularly elected president last year, discourage foreign investment. The aristocratic families prominent in the provinces continue to have a stranglehold on the economy and polity, with no real consensus on an agenda for prosperity that would provide a win-win outcome for the masses. Democracy, thus, is real, but forward-looking decisions are rare because of a gridlocked civil society.

The current regime in **Cambodia** has been in control for two decades, having managed to remove the Khmer Rouge as a factor. After the United Nations established the framework for free elections, held in 1993, a power-sharing arrangement was reached by the two principal political parties. But there is so much distrust among the various political leaders that the government maintains a firm grip; assassinations of both dissenters and government officials occur from time to time, especially during election campaigns. A civil society has grown, though acerbic comments by newspaper editors have led to assassinations. While the government apprehends troublemakers seeking to undermine the ruling party, the opposition complains that police do not investigate crimes committed against their leaders. One source of the financing and personnel for antigovernment actions is the Cambodian Freedom Fighters, a group headquartered in Southern California that has been investigated but never rounded up by the Federal Bureau of Investigation. Lacking sufficient aid, there is an economy of casinos, drugs, and smugglers of gems and timber, but no viable economic development strategy. Obviously, true democracy will not exist in Cambodia until power truly alternates between competing political parties. If external aid establishes an energy infrastructure for profitable investment, there is a possibility for economic progress to eclipse political bickering, but the uncertain polity precludes serious aid programs and major investment possibilities.

**Thailand** stands out as the most democratic country in the region, with an economy slowly recovering from the liquidity crisis of the late 1990s, no festering internal security problem, and a vibrant civil society. The current prime minister received an overwhelming mandate from the voters in 2000, though he has been unable to carry out all his campaign promises.

In conclusion, mass society theory provides a powerful template for analyzing developments in Southeast Asian economics, politics, and security concerns. True democracy in the region is impossible without the prior development of a civil society, but of course a civil society has to be developed through a consensus among democratic leaders. Undemocratic leaders prevail in Laos, Myanmar, Singapore and Vietnam, where internal security problems are under control. Rival leaders lack a consensus in the more democratic regimes of Cambodia, Indonesia, Malaysia, and the Philippines, where internal security problems sometimes loom large. Only in Thailand can we find a wide consensus among democratic leaders, a strong civil society, a vibrant economy that is emerging from the liquidity crisis of 1997, and a lack of internal security problems, consistent with mass society theory.

### **Globalization and Internal Security**

Mass society theory can analytically identify sources of problems, but there is always an economic basis for politics. Accordingly, the next part of the chapter seeks to identify whether globalization has complicated problems of internal security in Southeast Asia.

In the transition from the current international economy to a more globalized economy, each country will export goods and services that can be produced efficiently and will import the rest of its needs from other countries. Clearly, the process of globalization entails an end to government protection of inefficient domestic producers and thus much immediate unrest among those who will be thrown out of work. Globalization also means that hiccups in one part of the world economy can adversely affect other parts. In 2000 the Nasdaq bubble burst, so investment in new technologies was cut back. For example, demand for semiconductor chips dropped 31 percent,<sup>1</sup> thereby adversely affecting the economies of Indonesia, Malaysia, the Philippines, and Thailand.

The special case of **Brunei** well illustrates the impact of globalization. Since Brunei's prosperity depends upon the world price of petroleum, economic upturns and downturns in the world economy, mediated by supply-and-demand coordination on the part of the Organization of Petroleum Exporting Countries (OPEC), determine the sultanate's economic status. An economic difficulty in a major importing country will mean a reduction in world demand for petroleum that will tax OPEC's ability to assure stable earnings for such producers of petroleum as Brunei. The world oil demand growth of 4.5 percent in 2000 slumped to 2.4 percent in 2001.<sup>2</sup> Nevertheless, Brunei is so prosperous that there is little impact on domestic security.

**Singapore**, which also has a relatively small economy, is dependent on the world economy in a more complex manner, as the principal source of prosperity comes from trade conducted by multinational corporations located in the island republic that are headquartered abroad. When the world economy booms, Singapore does well, and the impact of a downturn can be very severe. Singapore's economy, indeed, was designed to be part of a global economy even before the globalization trend began.

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<sup>1</sup> Tom Holland, "Region Readies for the Recovery," *Far Eastern Economic Review*, January 10, 2002, p. 46.

<sup>2</sup> Ibid.

The recent free trade agreement with Japan and similar proposals for Australia, New Zealand, and even the United States are indicative of the government's view that the Singapore economy needs trade to survive. However, Singapore's internal security is unaffected, since its surveillance technology is Orwellian.

The command economies of **Laos** and **Myanmar** have thus far seen little impact from globalization. One of the reasons for the maintenance of state control of the economy is to prevent alternative centers of power to form in the private sector. Laos and Myanmar have not undertaken liberalizing reforms, so just about the only significant role that they play in the world economy is to supply narcotic drugs, which provide income to elements of the societies that might otherwise cause internal security problems.

*Doi moi*, **Vietnam's** liberalization policy that dates from the mid-1980s, encourages individual farmers and urban producers to sell goods and services in a free market, that is, with prices determined by the market rather than the state. However, the state still maintains control over the economic inputs, such as cotton and fertilizers, so the economy is free only at the stage of marketing, not production and processing, resulting in discontent that is suppressed. The U.S.-Vietnam trade agreement, which recently came into force, envisages a further opening up of opportunities for economic activity without governmental interference, albeit slowly.

**Cambodia** alone within Indochina has a free market. Lack of disciplined workers and serious investment means that the economy is dominated by illegal activities, from casinos to clandestine logging. To make a contribution to the global economy, Cambodia must first have an economic infrastructure, including roads, a power grid, and the like. The ruling party's tight control over internal political unrest is effective, but not so with the various illegal economic businesses, which are linked to the world economy. There is a world market for logs and narcotic drugs, but international aid has kept the government minimally afloat rather than proceeding to provide sources of inexpensive electric power so that there are legitimate opportunities.

**East Timor**, minus the illegal businesses, is in the same boat as Cambodia regarding the global economy. Lacking an economic infrastructure, East Timor will have to await handouts before globalization will have an impact. The internal security problem ended when Indonesian troops pulled out and U.N. troops moved in.

The Asian economic crisis of 1997 began in East Asia and quickly engulfed the original five members of the Association of Southeast Asian Nations, namely, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. One underlying factor was the so-called flying geese pattern, in which countries gradually move up in technological development by following in the pattern of countries ahead of them in the development process. Japan, for example, once produced textiles, then outsourced textiles to Korea and Taiwan, which in turn passed the baton to Indonesia, Malaysia, and Thailand. In the field of electronics, production ended up in the laps of Malaysia and Thailand.

But the immediate reason for the collapse of 1997 was a liquidity crisis, a situation in which risky loans offered by domestic banks in Japan and Korea – as well as in Indonesia, Malaysia, and Thailand – came home to roost. When Hanbo Steel of Korea declared bankruptcy in January 1997 and Somprasong of Thailand missed a

debt repayment in February, investors smelled trouble and tried to convert their cache of Southeast Asian currencies into hard currency so quickly that by July Thailand devalued the baht by nearly 25 percent and called in the International Monetary Fund. Indeed, payments stopped on half of all loans in Thailand.

When **Thailand's** government took action consistent with IMF recommendations, the pain was too much, and voters threw out the incumbents in January 2001 for a populist who promised relief. Foreign investment has slumped 40 percent since Thaksin Shinawatra took office, and public debt is still 60 percent of gross domestic product,<sup>3</sup> but in December 2001 he backtracked, offering tax holidays for companies establishing Thailand as a regional headquarters and opened share offerings for state enterprises to foreign participation.

**Indonesia**, similarly, called in the IMF when gross debt was more than 150 percent of gross domestic product.<sup>4</sup> Popular unrest and governmental indecision led last year to a vote in parliament to install a new president. President Megawati Sukarnoputri, however, has been unable to secure agreement among her cabinet heads on a coherent policy to follow, thus slowing prospects for economic recovery. Most debt is owed to foreign banks and countries, and the conglomerates have not yet returned to invest. Gross domestic product growth in 2000 was 4.8 percent rather than the 7 percent of the 1990s,<sup>5</sup> so at least the economy is still growing. Due to the possibility that civil disorder will increase in the world's largest Muslim country, Indonesian debts are to be rescheduled, so potential unrest actually gives the country a better bargaining position within the world economy.

**Malaysia**, however, did not call upon the IMF. When a run on the ringgit began, the government imposed a cap on currency exports that stopped the meltdown. When restrictions were lifted last year, restructuring of unprofitable businesses had already occurred, thus suggesting that the conditions imposed by the IMF on Indonesia and Thailand might have been avoided. Although exports slowed during the worldwide recession of 2001, so did imports, so Malaysia maintains a favorable trade balance. Nevertheless, the export slowdown has caused rising unemployment, a bad sign for a government that is trying to appease Muslims in order keep opposition Islamic fundamentalists at bay.

The currency meltdown of 1997 affected the **Philippines** as well, but the impeachment and removal of an elected president last year underscores a much larger problem—political risk. Moslem separatists in Mindanao and kidnap-for-ransom gangs in Manila frighten investors despite a well-trained workforce. Electronics exports have suffered due to the American economic recession, and Filipino guest workers abroad are not sending home as much foreign exchange. While there are better places to invest in the global economy, consumption of domestically produced food and clothing remains brisk in a country that ranks among the world's highest in birthrates, thus sufficiently insulating the Philippines from economic collapse.

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<sup>3</sup> Shawn W. Crispin, "Thaksin at a Crossroads," *Far Eastern Economic Review*, February 7, 2002, p. 18; Crispin, "Listless Days," *Far Eastern Economic Review*, January 10, 2002, p. 55.

<sup>4</sup> Sadanand Dhume, "Asia's Argentina," *Far Eastern Economic Review*, February 7, 2002, p. 51.

<sup>5</sup> Sadanand Dhume, "Diversity Pays," *Far Eastern Economic Review*, January 10, 2002, p. 54.

## Conclusion

From a qualitative standpoint, internal security problems in Southeast Asia are not particularly serious at this moment but loom below the surface as limiting conditions on the various governments in the region. The cauldron begins to boil when regimes are too heavy handed in suppressing political aspirations for a greater say in governance.

But we can also be quantitative. Using a three-point democratization scale,<sup>6</sup> the data reveal no correlation between economic prosperity and political democratization. Wise dictators and gridlocked democracies cancel out the expected correlation; instead, the distribution is U-shaped (Figure 11.1).

A more linear correlation exists between two other variables. Internal security problems<sup>7</sup> are greatest among most countries that are not very closely plugged into the global economy,<sup>8</sup> and the countries with the most globalized economies have the least internal security problems (Figure 11.2). Although correlation is not always causation, the connection is obvious. Countries that cope with internal security problems must divert domestic capital into military spending while potential investment abroad awaits resolution of domestic conflict; lacking investment from both internal and external sources, a country cannot experience economic progress and thus will fall behind in the frenzied pace of globalization. Where a country can spend less for the military, domestic enterprise can flourish, and foreign investment can safely bring global capital into a country.

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<sup>6</sup> The democracy scale is as follows: (3) countries that have free elections and a vibrant civil society, (2) countries with moderately free elections and an incipient civil society, (1) countries with neither free elections nor a civil society.

<sup>7</sup> The "internal security" scale is as follows: (3) countries that have active armed rebellions, (2) countries that have small-scale, continuing anti-government violence, (1) countries with only sporadic anti-government violence.

<sup>8</sup> The index of "globalization" is calculated as the percentage of each country's national income accounted for by imports and exports, using data in the *Asia Yearbook 2002*, Hong Kong: Far Eastern Economic Review, 2002, pp. 10-11.

**Figure 11.1**

**Relationship Between Democracy and National Income Per Capita**

	National Income Per Capita		
Democracy	Under \$1,000	\$1,000 - \$4,000	Above \$4,000
3 (high)		Malaysia Philippines Thailand	
2 (medium)	Cambodia East Timor	Indonesia	
1 (low)	Laos Myanmar Vietnam		Brunei Singapore

**Figure 11.2**

**Relationship Between Globalization and Internal Security**

	Globalization Index		
Internal Security	Below 100%	100%–200%	Above 200%
3 (most problems)	Indonesia Myanmar	Philippines	
2 (medium)	Cambodia Laos	Vietnam	
1 (least problems)	East Timor	Thailand	Brunei Malaysia Singapore

**Table 11.1**

**Comparison of Southeast Asian Countries**

Country	Democracy Scale	Internal Security Scale	National Income Per Capita	Globalization Index
Brunei	1	1	c.24000	c.400
Cambodia	2	2	260	42
East Timor	2	1	c.100	c.10
Indonesia	2	3	1050	62
Laos	1	2	290	73
Malaysia	3	1	3390	222
Myanmar	1	3	c.100	c.10
Philippines	3	3	1050	106
Singapore	1	1	24000	308
Thailand	3	1	2010	110
Vietnam	1	2	370	101

Sources: Author estimates; Far Eastern Economic Review (2002).





## CHAPTER 12

### **GROWTH, GOVERNANCE AND HUMAN DEVELOPMENT: Post-Soviet Transition in North and Central Asia**

VLADIMIR PETROVSKY

#### **Introduction**

Dramatic changes in the world's economic, political and social systems have brought unprecedented improvements in human living conditions in both developed and developing countries; profound breakthroughs in communications, transport, agriculture, medicine, genetic engineering, computerization, environmentally friendly energy systems, political structures, peace settlements, etc. But these changes also bring new uncertainties and challenges to both human development and security.

The transformation from command to market-oriented economies and the emergence of democratic political regimes in the former Soviet Union, against the background of the global processes of change, created a unique and challenging situation in North and Central Asia (NCA). Since the early 1990s, eight countries in the region (Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan) have suffered through a difficult period of transition and socio-economic reforms. Slow economic recovery and social policy shortcomings create numerous challenges for democracy and good governance in the rubble of the Soviet Empire.

#### **Growth, Governance, and Human Development: A Framework for Discussion**

During the 1990s, the Human Development concept has been accepted by an increasing number of researchers, policy advisors, politicians and social practitioners, most evidently in the publication of the global Human Development Reports (HDR). The first of these was published in 1990 and defined human development as “the process of enlarging people's choices. The most critical of these wide-ranging choices are to live a long and healthy life, to be educated and to have access to resources needed for a decent standard of living.”<sup>1</sup> The Human Development Index reflects the essential choices of people by combining life expectancy, school enrollment, adult literacy and average income.

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<sup>1</sup> *Global Human Development Report*, UNDP, 1990, 1.

The conceptual framework for the human development concept was developed by Nobel laureate Amartya Sen, who makes the distinction between the functioning of people—reflecting the various things a person may value doing or being—and their capabilities. In other word, a functioning is an achievement, while a capability is the ability to achieve. From a human development perspective, the quality of economic growth is just as important as its quantity. Aspects of “quality,” such as good governance, equality in health and education, and environment protection are central to what the poor—and everybody else—value most in economic progress.<sup>2</sup>

The human development concept links growth and governance within the framework of a theoretical debate, and helps to better understand the nature of socio-economic and political change underway in Russia and her post-Soviet Asian neighbors.

### **Post-Soviet Transition in the NCA: Slow Recovery and Contradictory Trends**

The collapse of the Soviet Union resulted in a dramatic slowdown of economic development and a total disruption of the USSR’s well-developed social safety net. Sharp declines in living standards, ethnic conflicts and social unrest provoked large-scale migration and frustrated the millions of Soviets of different nationalities. As the less-developed members of the USSR, the Soviet republics of the Caucasus and Central Asia suffered especially heavy losses in economic development and human potential.<sup>3</sup>

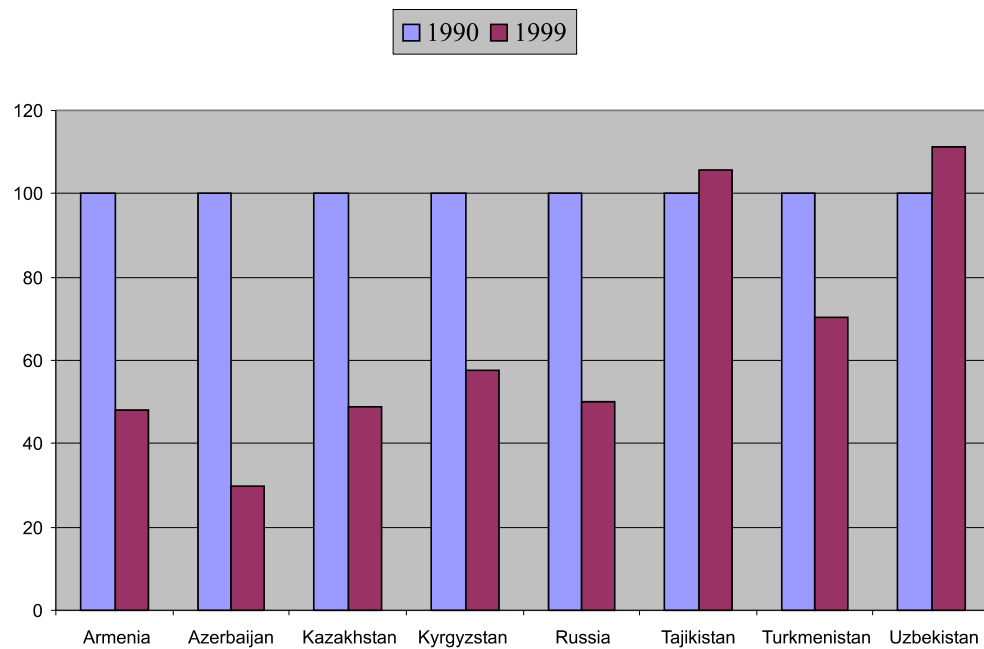
While the industrial production index shows the steady decline in economic growth in North and Central Asia in the 1990s (Figure 12.1), the region, however, enjoyed a comparative advantage in terms of the development of human capabilities such as health and education (areas of priority development in the Soviet system). This distinguishes North and Central Asian countries poor and developing countries in other regions.

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<sup>2</sup> *Doi Moi and Human Development in Vietnam. National Human Development Report 2001*, Hanoi, 2001, 14.

<sup>3</sup> *Statistical Indicators for Asia and the Pacific*, Volume XXXI, # 3, September 2001, United Nations, New York, 2001, 13.

**Figure 12.1**  
**Economic Growth in North and Central Asia**



For example, on the GDP-per-capita measure, 116 countries do better than Armenia. However, if social sector performance is also taken into account by using the Human Development Index (HDI) ranking, Armenia leap-frogs 44 countries which are richer in income terms (including Morocco, Bolivia, South Africa, Turkey and Peru) to arrive at 72<sup>nd</sup> place. This comparative edge in social terms is more significant among the economically less-developed countries of the region.

The international standings of Russia and Kazakhstan, however, fail to improve when the HDI data is taken into account. Due largely to the decaying public medical services, both countries have experienced large increases in adult male mortality during the post-Soviet transition, which reduces life expectancy, an element of the HDI.<sup>4</sup>

The life expectancy trend in Russia is particularly worrying, with 1999 seeing a sharp decrease. Life expectancy in Russia fell in 1999 by about one and a half years for men to 59.9 years (just above the level of India), and by half a year for women.<sup>5</sup> The crude death rate (total deaths per thousand population) in 2000 rose for the second year running, to 15.3—the highest rate since 1994.<sup>6</sup>

If the steep decline in living standards of the whole country is to be reversed, policies must be improved to reduce poverty and inequity. This must entail measures to reduce the inequalities that have been a feature of the establishment of a “wild” market-oriented economic system.

But the leading role of Russia among the former Soviet Republics still remains. Even a decade after the Soviet collapse, Russia remains among the largest trading partners for all the CIS economies, especially those of Central Asia, and for many of them is the largest source of foreign direct investment as well. Large Russian minorities remain in the Caucasus and Central Asia. Russian culture and language remain a constant force across the post-Soviet space, and Russian foreign policy toward the “near abroad” plays a major role in defining these countries’ geopolitical position.

But is the recovery in Russia (and the rest of North and Central Asia) sustainable? To the surprise of most observers, Russia reported 20 percent cumulative GDP growth in 1998–2001. While living standards for millions of Russians remain well below levels of ten years ago, the Russian economy is at last beginning to look like a reasonably well-functioning market system. In contrast to the situation prior to the August 1998 financial crisis, Russia has been off IMF life support for three years, and posted large budget surpluses during 2000–2001. Strong growth in spending by Russian households and businesses is now driving the economic recovery.

On the other hand, two key forces that have powered the economic recovery—the ruble’s sharp depreciation after August 1998 and the high oil prices of 2000–2001—seem to be coming to an end. Prospects for continued strong GDP growth depend

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<sup>4</sup> *A Decade of Transition*, The MONEE Project CEE/CIS/Baltics, Regional Monitoring Report # 8-2001, UNICEF, Florence, Italy, 2002, 7.

<sup>5</sup> Research shows that health, measured mainly by life expectancy and infant or adult mortality, is a reliable predictor of future economic growth. For a large sample of countries, it has been found that an increase in life expectancy in 1965 by 1% accounted for acceleration in GDP per capita growth of over 3% each year for the subsequent quarter century. *A Decade of Transition*, 48.

<sup>6</sup> *A Decade of Transition*, 49.

increasingly on the outlook for structural reforms, the implementation of which has proven exceedingly difficult in Russia and her post-Soviet neighbors.<sup>7</sup>

The National Human Development Reports (NHDR) for the Russian Federation,<sup>8</sup> published annually since 1995, show that standards of living have deteriorated dramatically during the post-Soviet transition. The reports concentrate on economic trends in Russia during the transition and the substantial challenges faced by the government in addressing the people's expectations and alleviating social hardship while ensuring the minimum necessary economic growth and equity.

The various dimensions of poverty and income inequality are thus being explored, as well as their impact on the more vulnerable sectors of the population, such as the poor, pensioners, unemployed, migrants and refugees. The corresponding impact on demographic indicators is also described, which includes a fall in population, a rise in mortality and suicide, a rise in divorce, and a rise in one parent families, etc.

Russia's Human Development Index has deteriorated considerably. In the mid-1990s the HDI estimate for the Russian Federation gave a value of 0.760. Because of its use of later data, this estimate was lower than that contained in the UNDP's global Human Development Report, which estimated a value of 0.804 for 1993, putting the country 57th out of 174 countries for which data were available. This suggests that Russia has been moving from the last place among countries classified as "high human development" to one of those described as "medium human development."

### **NCA Political Systems and Governance in Transition: Ways to Go**

Governance can no longer be considered a closed system. Its task is to find a balance between taking advantage of globalization and providing a secure and stable social and economic domestic environment.

"Governance has three legs: economic, political and administrative. Economic governance includes decision-making processes that affect a country's economic activities and its relationships with other economies...Political governance is the process of decision-making to formulate policy. Administrative governance is the system of policy implementation. Encompassing all three, good governance defines the processes and structures that guide political and socio-economic relationships."<sup>9</sup>

Governance encompasses the state, but it transcends the state by including the private sector and the civil society. The parameters of good governance in its three key domains (state, civil society and the private sector) ought to have such characteristics as participation; rule of law; transparency; responsiveness; consensus orientation; equity; effectiveness and efficiency; accountability; and strategic vision. Being interrelated, these characteristics are mutually reinforcing and cannot stand alone. They represent the ideal, and no society has them all.

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<sup>7</sup> *UNDP Roundtable: Development Trends in Russia*, New York, February 15, 2002.

<sup>8</sup> NHDRs are being prepared for the UN Development Program by a team of independent national researchers and initiated jointly by the Russian Government and the UNDP Country Office. This document contributes to the national dialogue among stakeholders, especially the Government, and enhances their awareness of the problematic nature of sustainable human development.

<sup>9</sup> *Governance for Sustainable Human Development. A UNDP Policy Document*, United Nations Development Program, January 1997, 2-3.

The World Bank has developed a combination of indicators allowing the transitional economies (including those of the NCA) to be classified into four types based on the extent of political contestability and a widely accepted annual rating of political and civil liberties provided by the Freedom House. Political contestability has been defined as the extent to which key decisions of the political process—such as choosing political leaders, adopting laws, and making binding policy decisions are subject to challenge by freely organized groups within and outside government. Political contestability can thus be determined by such dimensions as:

- Political rights and civil liberties
- Veto points<sup>10</sup>
- Government turnover
- War and political violence.<sup>11</sup>

The four types of the political systems in transition are:

Competitive democracies—None of the North and Central Asian countries fit the criteria. Only Central and East European transitional economies are in this group.

Concentrated political regimes (Russia and Kyrgyzstan)—These combine multiparty elections with limited political competition through constraints on civil liberties, which results in a concentration of political power in the executive branch.

Noncompetitive political regimes (Kazakhstan, Turkmenistan, Uzbekistan)—These regimes constrain entry of potential opposition parties into the electoral process and restrict political participation, resulting in a few institutionalized limitations to check the executive.

War-torn political regimes (Armenia, Azerbaijan and Tajikistan)—Such regimes are severely strained by external conflicts or extreme internal contestability rooted in ethnic or territorial divisions, resulting in a prolonged loss of political order and control and serious weaknesses in the provision of basic public goods.

Armed conflicts have been an important variable in the political dynamics of North and Central Asia and warrant special mention:

- *Armenia and Azerbaijan, 1994–1998*. Clashes between Armenian and Azerbaijani troops led to war over the territory of Nagorno-Karabakh, a part of the Soviet Union when the unrest first became significant. About one million people were uprooted from their home.

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<sup>10</sup> Number of institutional actors who can veto political decisions.

<sup>11</sup> *Transition. The First Ten Years. Analysis and Lessons for Eastern Europe and the Former Soviet Union*, The World Bank, Washington, D.C., 2002, 97.

- *Central Asia: The Fergana Valley, 1989–1991.* Tensions escalated in 1989 in the Fergana Valley, which straddles the borders of Kyrgyzstan, Tajikistan and Uzbekistan, and a series of violent clashes resulted in hundreds of deaths and extensive damage to property. Tensions have simmered there since the late 1990s.
- *Tajikistan, 1992–1993.* A civil war beginning in 1992 left an estimated 50,000 dead and up to 700,000 people displaced. By the time of the peace agreement in 1997, preceded by the Russian peacekeeping operation in Tajikistan, most of the displaced had returned to their homes, many of which had been destroyed.
- *Russia: Northern Caucasus, 1992–2002.* An intense outburst of violence between North Ossetia and Ingushetia occurred in October 1992. In 1994 federal troops entered Chechnya, which had declared independence. Following two major periods of fighting (the second started in 1999 following the attempt by Chechen guerrillas to invade Dagestan), there are now an estimated 160,000 internally displaced people in neighboring Ingushetia. Those remaining in Chechnya face harsh living conditions and continuing violence.<sup>12</sup>

Reform efforts in each of the political systems present in North and Central Asia have been halting at best. In two of the region's concentrated political regimes, Russia and Kyrgyzstan, the collapse of communism was more a result of competition between elites (*nomenklatura*) than a broad social movement. Though comprehensive reforms were proposed in the early stages of transition, the regimes lacked the credibility to build and sustain broad popular support for these reforms. Partial liberalization and privatization, the inflationary budgets and remaining barriers to entry generated tremendous opportunities for rent seeking and theft.

President Vladimir Putin has boldly attempted to speed up economic reform and reorient Russian federalism, foreign policy, and civilian-military relations. But rates of poverty and inequality remain high, and little progress has been made in addressing the devastating Soviet environmental legacy. Despite a turnaround in Russian capital markets in 2001, capital flight continues to dwarf inflows of foreign investment. The independent media and many NGOs have come under increasing pressure from Putin's security apparatus. The Russian Army's pursuit of a military solution in Chechnya continues to generate appalling collateral damage.<sup>13</sup>

In noncompetitive political systems, economic reform has been limited, driven not by the potential winners or losers of reform, but by Soviet-era authoritarian political leaders merely trying to maintain political control and ensure economic stability. Political reform has been equally constrained as incumbent leaders have sought to restrict political opposition.

During periods of peace and relative stability, war-torn political regimes have tried to adopt comprehensive reform programs. However, the credibility of their

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<sup>12</sup> *A Decade of Transition*, 5.

<sup>13</sup> UNDP Roundtable: *Development Trends in Russia*, New York, February 15, 2002.

governance—and their reforms—is undermined by the collateral damage of war, such as sharply reduced output, living standards and state resources; depleted physical and human capital; and increased poverty.

So what does the World Bank prescribe for the transitional political systems in the North and Central Asia? In general, for the concentrated political regimes they are: to mobilize the electorate and potential reform winners; to guarantee a free media; and to allow political and economic competition to reinforce one another. Noncompetitive political systems are to take advantage of the greater state capacity to implement reforms. War-torn regimes must first restore stability and reduce uncertainty to the extent possible. Direct assistance and participation by bilateral and multilateral donors and technical assistance agencies will be critical in this fundamental effort.<sup>14</sup>

Sustainable human development aims to eliminate poverty, promote human dignity and rights, and provide equitable opportunities for all through good governance, thereby promoting the realization of all human rights—economic, social, cultural, civil and political. The promotion of human rights is of particular relevance in the context of its potential to prevent the exclusion and marginalization of weak groups and those with limited resources.<sup>15</sup>

The fight against corruption has been an essential element of the overall efforts to ensure good governance in North and Central Asia. For example, the government of Kazakhstan has undertaken a systematic anti-corruption effort, including the establishment of the Civil Service Agency.<sup>16</sup> However, “attempts to toughen control over officials and introduce appropriate legislative amendments do not directly affect the causes of corruption and, consequently, have not achieved the desired results. The Civil Service Agency has therefore initiated a pioneering program featuring the introduction of a computerized human resources information system, recruitment and testing procedures with numeric codes, a telephone hot line for citizens and the media, and expanded international experience exchanges.”<sup>17</sup>

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<sup>14</sup> *Transition. The First Ten Years. Analysis and Lessons for Eastern Europe and the Former Soviet Union*, 108-115.

<sup>15</sup> *Integrating Human Rights with Sustainable Human Development. A UNDP Policy Document*, United Nations Development Program, January 1998, 2.

<sup>16</sup> Two levels of corruption have been identified within Kazakhstan’s civil service. The first one includes the bribes that low- and mid-level officials take as a result of extremely low salaries, vague administrative procedures, and acquiescence of support of their supervisor. The second level occurs at the top and medium echelons of power, where illegal commissions are paid for concluding contracts, issuing permit for banking operations with budgetary funds, or for providing credits, preferential export quotas, licenses, certification, and appointment to high-paid positions.

<sup>17</sup> *Fighting Corruption in Post-Communist States – Lessons from Practice*, UNDP/RBEC Policy Brief, 2002, 10.



### **“Responsible Globalization”: Towards Pro-Poor Strategies?**

To conclude, all debates on growth and governance in Asia—North and Central Asia in particular—are pointless unless written into the context of globalization. It aggravated the post-Soviet transition but, at the same time, provided for powerful tools and solutions necessary for the former Asian Soviet republics to get through the painful transitional period.

Generally, globalization is a process of change. It is being defined as the process of an increasing number of interactions between people in different countries at an increasing intensity, made possible by the continuous decline in international transaction costs.<sup>18</sup> There are two powerful engines that drive globalization nowadays: rapid technological change and the latest wave of liberalization.

Analysts and policy makers recognize that “globalization has profound implications for governance, the final impact of which we cannot yet determine.” However, the most profound of these include:

- the increasing marginalization of certain population groups as a result of the technological/information revolution;
- the erosion of state sovereignty as transnational bodies increasingly mediate national concerns and press for universal laws;
- the increased globalization of social and economic problems such as crime, narcotics, infectious diseases and the migration of labor;
- the decreasing accountability of international capital and trade to sovereign states.<sup>19</sup>

One positive aspect of the current round of globalization is the global community’s heightened determination to eradicate poverty worldwide. This commitment is clearly reflected in the Millennium Declaration of the U.N. Summit of September 2001, as well as in the strategies of numerous international development and technical assistance organizations, such as the IMF and the World Bank.

President Putin, notably, mentioned the need for “Socially Responsible Globalization,” saying the post-Soviet transition cannot be successfully completed if the benefits of globalization are not properly used to the advantage of Russia and other post-Soviet transitional economies.

Should economic reform strategies have a poverty focus? Experts argue that “in considering social welfare, most people in general, and most democratically elected governments in particular, would give more weight to the well-being of the poor than of that of the rich...A policy that increases the income of the poor by one rupee can be worthwhile at the margin even if it costs the rest of society more than a rupee.”<sup>20</sup>

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<sup>18</sup> *Đổi Mới and Human Development in Vietnam. National Human Development Report 2001*, 20.

<sup>19</sup> *Governance for Sustainable Human Development. A UNDP Policy Document*, 10.

<sup>20</sup> Dani Rodrik, *The Global Governance of Trade As If Development Really Mattered*. United Nations Development Program, 2001, 13.

However, developing a strategy that deals comprehensively with macroeconomic policy, structural and sectoral reforms, governance issues, social inclusion, and the medium-term public expenditure program is complex. IMF and World Bank analysts admit that much is still unknown about what policies work best for some key aspects of poverty reduction.”<sup>21</sup> Poverty reduction is still a big challenge for all key players on the international donors’ scene, to say nothing of its potential beneficiaries in North and Central Asia and other regions of the globe, who act as both objects and subjects of the globalization process.

International and bilateral donors and technical assistance agencies are learning from the mistakes of the past. Accused of wasting aid targeted for the economic recovery and democratization of the post-Soviet realm in the 1990s, they have adjusted their capabilities to match the actual needs of supporting growth and good governance in North and Central Asia and other regions.

In a recent interview, USAID Administrator Andrew Natsios noted that at present only a small portion of official development assistance (ODA) to poor countries goes directly to governments anymore and that little is wasted. One-third of USAID money is spent through international, U.S.-based NGOs, one-third through universities, associations and local NGOs, and one-third through the private sector.<sup>22</sup>

However, observers note that the United States currently ranks dead last among industrial countries in the amount, relative to the size of the economy, that it allocates to foreign assistance—barely one-seventh of one percent of GDP and less than a penny of every dollar in the President’s 2003 budget.<sup>23</sup>

President Bush’s budget proposal for 2003 increased “international assistance” programs by just under \$750 million. This, however, includes almost \$500 million for foreign military financing and \$52 million for a Center for Antiterrorism and Security Training. While these expenditures are no doubt useful to enhance security and battle international terrorism, it is hard to disagree with the *New York Times*, which argues:

Our efforts should include supporting nascent institutions of civil society; promoting pluralism of information and opinions; promoting economic development to reduce the appeal of radical alternatives; and creating modern educational systems that give young people...the tools they need to flourish in a world where global connections become ever more important.<sup>24</sup>

This is particularly true for North and Central Asia, a key player in global security, stability and sustainable development.

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<sup>21</sup> Review of the PRSP Experience. An Issues Paper for the January 2002 IMF and World Bank Conference, January 7, 2002, 8 (<http://www.worldbank.org/poverty/strategies/review/index.htm>).

<sup>22</sup> USAID Administrator Natsios Interview on Development Assistance, *the Washington File*, February 5, 2002.

<sup>23</sup> *New York Times*, February 12, 2002.

<sup>24</sup> *Ibid.*



## CHAPTER 13

### POLITICAL ISLAM, PAKISTAN, AND THE GEO-POLITICS OF RELIGIOUS IDENTITY

ROBERT G. WIRSING

#### Introduction

The Muslim share of the world's population is generally estimated to be in the neighborhood of 1.3 billion or about 22 percent of the total. Of this figure, Asia's share is substantial. Well over half of the world's Muslims, in fact, dwell—some of them as majorities, some as minorities—in the broad belt of Asian countries reaching from the eastern shore of the Mediterranean to the easternmost tip of the Indonesian archipelago. Of the 10 countries in the world housing the largest national Muslim populations, seven (Indonesia, Pakistan, Bangladesh, India, Turkey, Iran, and China, in that order) are located in this belt; and the first four of them (Indonesia, Pakistan, Bangladesh, and India) hold as much as 40 percent of the Muslim world total. There is great variation, of course, in the Muslim share of Asian national populations, from virtually 100 percent in the Maldives to four percent or less in Thailand and less than three percent in China. The variation is just as great, moreover, in the socio-cultural *content* of these Muslim populations, whose histories and geographies display a dazzling variety. By any yardstick, however, the Muslim community or *ummah* as a whole is a formidable component of the Asian religious-cultural landscape. It cannot avoid affecting—and in turn being affected by—the governing capacities of Asian states, in particular their capacity to manage successfully their characteristic cultural heterogeneity.

Complicating this task is the persistent controversy that swirls around the contemporary development of Asian Muslim communities. Among the most controversial issues are those pertaining to contemporary political militancy or jihadism—to the way, for example, in which one characterizes radical, extremist, or “fundamentalist” trends and tendencies amongst Asian Muslim communities. Nowhere are these characterizations more contentious—or laced with greater policy

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The views expressed in this chapter are those of the author and do not reflect the official policy or position of the Asia-Pacific Center for Security Studies, Department of Defense, or the U.S. Government.

consequences—than in Pakistan. This chapter will examine three issues. First: What drives political Islam in Pakistan? Second: How strong is political Islam in Pakistan? And third: What ought to be done about political Islam to bolster Pakistan's prospects for sustaining a pluralist political community? It will be argued that Islamic identity is unquestionably undergoing massive politicization virtually everywhere in Asia, and certainly in Pakistan, but less because of any inherent radical or jihadist—holy war-driven—tendencies that may be inherent to Islam itself than because of the particular geopolitical circumstances in which Asian, and Pakistani, Muslims currently find themselves. It will also be argued, accordingly, that the most effective antidote to religious extremism in Pakistan over the long run is likely to be found not in a frontal assault on Islamic militancy as such but in the altering of the geo-political circumstances that fuel it. Radical Islam is rising in Pakistan but there is nothing inevitable about its eventual triumph.

### **What Drives Political Islam in Pakistan?**

What forces underlie its rise and propel the religious-political movements that are its vanguard? Are these forces primarily economic? Historical? Political? Strategic? Or do they reflect a deepening and lengthening of Islamic cultural (religious or civilizational) identity, as Samuel Huntington famously advised?

Various answers to these questions have been given—some of them global in their reach, others more specific to Pakistan. Of the global variety, Huntington's answer, initially articulated nearly a decade ago, has provoked the most criticism.<sup>1</sup> Challenging the prevailing wisdom that global politics was increasingly to be written in the language of market economics, Huntington's "clash of civilizations" thesis elevated religious identity itself to a commanding position among the most probable determinants of the emerging world order. According to his thesis, the fundamental source of conflict in the 21<sup>st</sup> century would be primarily neither ideological nor economic; it would be cultural, more specifically, civilizational. Nation-states would remain the most powerful actors in world politics; but the main conflicts would occur between nations and groups of different civilizations. Most of the eight or so extant civilizations he identified are primarily or at least importantly religion-based. Four of them—Hindu, Islamic, Buddhist, and Sinic/Confucian—are dominant in Asia. Two of them—the Hindu and Islamic—have been in a state of full- or quasi-belligerence in South Asia for the last half-century. One of them, the Islamic, said Huntington, is the most conflict-prone on the planet. "Islam," he observed, "has bloody borders."<sup>2</sup>

Huntington's critics, as we all know, have bitterly assailed his thesis for having endowed religion-based civilizations with far greater vitality and cohesion than they deserved at the same time that it breezily understated both the hold on power retained by sovereign state entities as well as the tenacity and continuing appeal of modernity and secularism. Cropping up in critical assessments of his thesis with particular insistence, however, was the charge that he attached disproportionate importance to

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<sup>1</sup> Huntington's thesis appears to have survived, even flourished, in spite of the criticism. For a recent and relatively sympathetic critique, see Stanley Kurtz, "The Future of 'History,'" *Policy Review* No. 113, online edition (June 2002).

<sup>2</sup> Samuel P. Huntington, "The Clash of Civilizations?," *Foreign Affairs* 72:3 (Summer 1993), p. 35.

the signs of imminent struggle emerging *between* civilizations to the neglect of immediate struggle already present *within* them—that in depicting acute regional conflicts as materializing along supranational and semi-mythic civilizational fault lines, in other words, that he grievously underplayed the tangible interests of physically-existent state and sub-state entities.

In mounting this thesis, Huntington undeniably slighted more than one rule of social science research; and we will be returning to his thesis a bit later on to highlight one particularly unfortunate instance of terminological recklessness in it. Wholesale dismissal of his thesis, however, is clearly not warranted by what we know of political Islam in Asia. Contrary to what some of his critics have asserted, this thesis does not rest upon a simple-minded assumption of civilizational solidarity—that the world was grouping itself literally, in other words, into fixed, tightly-knit, and uniformly hostile civilizational or religious camps. Huntington was as aware as any of us that Muslim states and Muslim sects-within-states warred at least as often with one another as with representatives of the world's other great religions. Among his many arguments, moreover, some have impressive empirical support. One of these is the notion of civilization- or kin-country rallying—the provision by state, interstate, or non-state agents of direct or indirect cross-border material aid to embattled co-religionists. It is no accident that the 158 allegedly Al Qaeda- or Taliban-linked “unlawful combatants” being held at Guantanamo Bay by the U.S. government at the end of January 2002 reportedly came from 25 different countries.<sup>3</sup> If nothing else, Al Qaeda was rallying the faithful from all over the world. Speaking of the then still-ruling Taliban leadership in Afghanistan, the French sociologist Olivier Roy observed that they “do not care about the state—they even downgraded Afghanistan by changing the official denomination from an “Islamic State” to an “Emirate.” Mollah Omar does not care to attend the council of ministers, nor to go to the Capital.” Roy conceded that “this new brand of supranational neo-fundamentalism,” as he termed it, “is more a product of contemporary globalization than of the Islamic past.” Nevertheless, the supranational character of the phenomenon he was describing, in which “the state level is bypassed and ignored,”<sup>4</sup> suggests that the Huntington model *has* application not only to the global war on terrorism but to the broader discussion of political Islam.

Obviously, we cannot reduce the “world war” of sorts launched in Afghanistan in October 2001 simply to a war of religions—or even confidently describe it as an incipient “fault line war” in a coming “clash of civilizations.” Nevertheless, visible to all but the most obstinate of Huntington's critics (and in spite of strenuous official insistence by President George W. Bush and other American leaders that the war was one against “terrorists with global reach” and “the states that harbor them,” not against Islam itself) was the hefty element of religious identity—and clash—that has cropped up insistently in public discussion, especially in America, of the post-September 11 war on terrorism. As Swarthmore College's James Kurth points out in a

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<sup>3</sup> Katharine Q. Seelye and David E. Sanger, “Bush Reconsiders Stand on Treating Captives of War,” *The New York Times*, 29 January 2002, p. 1.

<sup>4</sup> Olivier Roy, *The Changing Patterns of Radical Islamic Movements*, CSNS Policy Paper 2 (Delhi: Jawaharlal Nehru University, November 2001, p. 15.

recent sobering article, the relationship between the war and Islam cannot be arbitrarily dismissed. “The war is indeed a war against terrorists and the states that harbor them as Bush stated,” he says,

but all of these terrorists and states are Islamic. The war is also a war between the West and Islam as bin Laden stated, but the Western peoples and their governments do not habitually use the term “Western” to identify themselves, nor do the Islamic peoples and their governments routinely engage in terrorism. The war is actually one between Western nations and Islamic terrorists. Because it involves nations that are Western both in fact and in the minds of the Islamic terrorists, it engages the West. The way that the leading nation of the West, the U.S., wages this war will be greatly shaped by the nature of both Western civilization and Islam.<sup>5</sup>

The matter of Islam’s complicity with terrorism was given an equally blunt interpretation fairly recently with publication by the New York-based Institute for American Values of an open letter, signed by sixty leading academics and intellectuals (including Samuel Huntington), defending America’s war on terrorism as morally necessary and just. Entitled “What We’re Fighting For: A Letter From America,” its signatories sought to sharpen the definition of the adversary by drawing a distinction between Islam as a great religious tradition and Islam as an element in a contemporary political movement. “We use the terms ‘Islam’ and ‘Islamic,’” the letter said,

to refer to one of the world’s great religions, with about 1.2 billion adherents, including several million U.S. citizens, some of whom were murdered on September 11. It ought to go without saying—but we say it here once, clearly—that the great majority of the world’s Muslims, guided in large measure by the teachings of the Qur’an, are decent, faithful, and peaceful. We use the terms “Islamicism” and “radical Islamicist” to refer to the violent, extremist, and radically intolerant religious-political movement that now threatens the world, including the Muslim world.<sup>6</sup>

While the signatories’ seeming intention in drafting the letter was to underscore their belief in the war’s fundamentally principled and defensive character, perhaps the letter’s most powerful message was the implicit suggestion that the world’s Muslims, having given birth to the “radical Islamicist” offshoot of Islam, had in doing so revealed their own alarming cultural failure to appreciate the moral universality and inescapable appeal of American values. The attackers, the letter stated, “despise not

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<sup>5</sup> James Kurth, “The War and the West,” *Orbis*, Vol. 3, No. 2 (February 2002). For an intriguing argument along the same lines, see Stanley Fish, “Postmodern Warfare: The Ignorance of Our Warrior Intellectuals,” *Harpers* (July 2002), pp. 33-40.

<sup>6</sup> “What We’re Fighting For: A Letter From America,” *Propositions Online*, Institute for American Values, 12 February 2002.

just our government, but our overall society, our entire way of living. Fundamentally, their grievance concerns not only what our leaders do, but also who we are.” The letter explicitly excluded from consideration the doctrines of holy war and crusade, which it labeled unjust and immoral. Yet, in more than one way—in its emphatic linking of the American war effort with cultural values, in its invocation of “just war” precepts in defense of the war against terrorism, in its espousal of moral universalism, as well as in the conscious choice made by its drafters to address the letter to “our Muslim brethren around the world”<sup>7</sup>—it perhaps unwittingly left the door ajar for the tacit inclusion of these doctrines among the motivations for the war on terrorism.

Now one might object to all this with the argument that, after all, it is socio-economic distress and not identity that drives Muslims to extremism. To be candid, this “militant Islam-from-poverty thesis,” as Daniel Pipes has pointed out, has more disciples, and not only in the West, than any other. “Islam is the religion of bad times,” said an Egyptian sheikh. “It is enough to see the poverty-stricken outskirts of Algiers or the refugee camps in Gaza to understand the factors that nurture the strength of the Islamic Resistance Movement,” said a Hamas leader in Gaza. “Fundamentalism grows at the same pace as economic problems,” said Prime Minister Eddie Fenech of Malta. “Fundamentalism’s basis is poverty,” said Israeli Foreign Minister Shimon Peres. “These forces of reaction feed on disillusionment, poverty and despair.... [The remedy is to] spread prosperity and security to all,” said former President Bill Clinton.<sup>8</sup>

Unfortunately, as Pipes observed, the correlation between economics and militant Islam is not that neat. Militant Islam, he argues, “attracts highly competent, motivated, and ambitious individuals. Far from being the laggards of society, they are its leaders.” It is the rising middle classes of Muslim Asia, he says, not its impoverished masses, who are attracted to radical Islam. In some way, political Islam is all about God, not Mammon, Pipes urges. After all, “suicide bombers who hurl themselves against foreign enemies offer their lives not to protest financial deprivation but to change the world.”<sup>9</sup>

It is not only suicide bombers, it seems, who want to “change the world.” On the contrary, hostility for the contemporary—Western- and American-dominated—world order seems quite widespread throughout the Muslim world. Indeed, according to a comprehensive Gallup Organization poll taken in February 2002 of nearly 10,000 residents of nine Muslim countries (Indonesia, Iran, Jordan, Kuwait, Lebanon, Morocco, Pakistan, Saudi Arabia, and Turkey), the depth of anti-U.S. sentiment is—as an American journalist expressed it—“breathtaking.”<sup>10</sup> Respondents described the United States as ruthless, aggressive, conceited, arrogant, easily provoked, and biased. The poll seemed to indicate sweeping Muslim disapproval of President Bush, his country, and its military intervention in Afghanistan.<sup>11</sup>

<sup>7</sup> Alan Cooperman, “Academics Defend U.S. War On Terrorism,” *The Washington Post*, 12 February 2002, p. 16.

<sup>8</sup> Quotations are taken from Daniel Pipes, “God and Mammon: Does Poverty Cause Militant Islam?” *National Interest* No. 66 (Winter 2001/02), pp. 14-15.

<sup>9</sup> Pipes, “God and Mammon,” pp. 16-17.

<sup>10</sup> Andrea Stone, “In Poll, Islamic World Says Arabs Not Involved In 9/11,” *USA Today*, 27 February 2002, p. 1.

<sup>11</sup> Andrea Stone, “We’ve Got Work To Do’ On Image With Muslims, Bush Says,” *USA Today*, 28 February 2002, p. 4.

What accounts for all the resentment? Some part of the answer to this question, according to Princeton historian Bernard W. Lewis, has to be sought in the Islamic world's modern history. In his most recent book, *What Went Wrong?: Western Impact & Middle Eastern Response*,<sup>12</sup> Lewis claims that just about everything has gone wrong in recent centuries for much of the Islamic world. From a position a few centuries ago in the forefront of human achievement, including economic and military achievement, the world of Islam has today fallen unequivocally upon bad times. Once able itself to deride the Western World as an area of darkness and barbarism, the Islamic world anguishes today over the stunning reversal in its global role. Powerful contemporary forces of economic, social, cultural, and political globalization, most of them Western-driven, inevitably deepen the anguish.

Not all—not even the larger part—of the answer, however, is likely to be found in the historical record. Neither is all of it likely to be found in socio-economic distress. In this regard, there is validity to Pipes' observation that “the factors that cause militant Islam to decline or flourish appear to have more to do with issues of identity than with economics.”<sup>13</sup> It is not necessary to concede that there is a full-fledged “clash of civilizations” in progress to acknowledge the huge importance of religion in contemporary world politics. This goes equally for the Christian as well as the Muslim world. Since the Muslim world is today nearly everywhere on the political, military, and cultural defensive, it should not surprise us that pragmatic political militants in the Muslim world, in seeking to mobilize support, naturally fall back upon the powerful, ubiquitous, and easily mined cultural resource of Islamic identity.

When we come to the particular case of Pakistan, a number of circumstances closer to home have to be added to the list of political Islam's propellants. These include *domestic* circumstances, foremost among them, perhaps, the country's enfeebled political and economic institutions and the all-powerful military's compulsion, witnessed most conspicuously during the eleven years of General Zia-ul-Haq's rule (1977-1988), to ground its legitimacy in the religious right. They also include obvious *external* circumstances, including the ideologically powerful Islamic Revolution in neighboring Iran, the massive recruitment of Arab and other co-religionist *mujahideen* (holy warriors) by Pakistan and its allies (including, of course, the United States) to the decade-long fight against Soviet occupation of Afghanistan (1979-1989), and the tempting opportunity to infiltrate Islamic militants in neighboring India that came with the uprising in Kashmir in 1989. To these latter circumstances must be added, of course, the more recent and catastrophic upheavals in Pakistan's vicinity—the fall of the Taliban regime in Afghanistan in late 2001 and the massive mobilization of Indian forces on Pakistan's borders beginning in late 2001.

Merely to list these circumstances is to argue, powerfully, that political Islam's emergence in Pakistan cannot be reduced simply to the country's domestic economic and political deficiencies, though they are many. Neither, they would also suggest, can its emergence be attributed exclusively, perhaps not even very importantly, to the

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<sup>12</sup> Bernard W. Lewis, *What Went Wrong?: Western Impact & Middle Eastern Response* (New York: Oxford University Press, 2001).

<sup>13</sup> Daniel Pipes, “God and Mammon,” p. 14.



proliferation of *madrasahs* (religious schools or seminaries), the oft-cited breeding ground for Pakistan's alleged legions of religious bigots. Political Islam in Pakistan has had an amazing array of forces to feed it.

The issue of how far these forces have actually succeeded in bolstering political Islam in Pakistan brings us to our second question.

### **How Strong is Political Islam in Pakistan?**

At the moment, how much political success—whether measured in terms of ideological appeal, electoral performance, or organizational expansion—can political Islam claim in Pakistan? How great is its mass popularity? What capacity does its government have, through regulations and controls, to encourage or discourage its spread? In general, how much of a threat does it pose to Pakistan's state stability and order?

Almost everywhere in Asia where there are significant numbers of Muslims, claims—often by government officials—have become commonplace that Islamic radicalism has grown in recent years. We have witnessed this, for example, in China, India, Indonesia, Malaysia, the Philippines, most of the ex-Soviet states of Central Asia, and, of course, Pakistan, whose president warned his countrymen in an unusually candid televised address on 12 January 2002 that the greatest danger facing Pakistan came not from outside Pakistan, not from India, but from Pakistan's own homegrown religious radicals—"a danger," he said, "that is eating us from within."<sup>14</sup> In spite of such claims, however, there exists, in fact, considerable variance from state to state in the judgments reached about the actual magnitude of Islamic radicalism's growth. This was made plain to the author during the course of a week-long visit to Singapore in February 2002. In discussions with a score or more of bureaucratic officials, military officers, think-tank analysts, and academics, the so-called "green threat" of Islamic radicalism was given significantly disparate characterizations. The "greening," said one, is occurring on both sides of the Malacca Straits—in both Malaysia and Indonesia, in other words—but more in Malaysia than in Indonesia. "Political Islam is *not* a problem in Indonesia," said another, then added that "most Muslims in Indonesia, in fact, are moderates." "Indonesia," offered another, paradoxically, "is the largest Muslim country that isn't Muslim! [its government is secular]" "Most Muslims in Indonesia aren't radical," insisted yet another, "but the extremists exert disproportionate influence." "Don't write off political Islam" in Indonesia, another gravely observed.

Given Pakistan's enormous strategic importance in the war on terrorism, its own alleged religious radicalization warrants a little closer examination. Exactly what should we make of Pakistan's experience with Islamic radicalism? What lessons does it hold for our assessment of political Islam's progress in the rest of Asia?

First, governments are rarely mere innocent bystanders when it comes to the progress of religious radicalization. President Musharraf's address, which also announced a ban on five militant groups, including the two most powerful in

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<sup>14</sup> Craig Whitlock & Rajiv Chandrasekaran, "Pakistan Bans Five Militant Islamic Groups," *The Washington Post*, 13 January 2002, p. A1.

Kashmir, was in some measure an explicit indictment of Pakistan itself. At least in part, it echoed the analysis of Pakistan that had been presented to the Bush administration in its first weeks in office by The Rand Corporation. Its report had warned then that “the most disturbing of [unhealthy political, economic, and strategic trends in Pakistan] has been the growth of Islamic extremism. Extremist groups thrive because of Pakistan’s continuing state failures and because they are intentionally supported by the Pakistan military and secret services in the pursuit of the latter’s goals in Kashmir and Afghanistan.”<sup>15</sup> More pointedly than President Musharraf had acknowledged, the Rand report declared that Pakistan’s current admitted surplus of Islamic radicalism was to no small extent the direct and premeditated spawn of the Pakistan Army. The Army had over the years found a natural ally in the radicals not only in domestic politics, where militarist regimes had to contend with the problem of political legitimacy, but also in pursuit of foreign policy goals in Kashmir and Afghanistan.

Of the Army’s sponsorship of the Taliban as well as of armed insurgent groups in Kashmir, enough is already known and we need not dwell upon it here. We should take further note, however, of additional ways in which the Pakistan state actively facilitated the rise of Islamic radicalism. General Zia ul-Haq, for instance, relaxed *zakat* (a traditional Islamic charitable tithe) restrictions in the late 1970s, allowing direct public contributions to local *masjid* (mosques) and *madrasahs*. It was no surprise, in the face of this unexpected windfall, that both the numbers and the local importance of these institutions expanded appreciably thereafter. *Madrasahs* of the fundamentalist *Deobandi* movement alone grew nearly fivefold between 1979 and 1983-84.<sup>16</sup> From a total of 137 *madrasahs* in all of Pakistan at the time of partition in 1947, their number in Pakistan’s most populous province, the Punjab, had grown by 1996 to 2,463—an eighteenfold increase. And their proliferation, according to the careful assessment of one scholar, “has continued at a phenomenal pace since.”<sup>17</sup>

There are additional reasons for the exponential growth of Islamic schools, of course; but there are at the same time persuasive reasons to think that government rules and regulations have themselves had a lot to do with the creation of these so-called “prep schools for the Islamic jihad”—and, thus, also with the expansion and contraction of Islamic extremism. Needless to say, the government of Pakistan also has itself to blame for the country’s notorious failure to provide its citizens with adequate social services, public education in particular.

Second, for all the talk of Islamic extremism in Pakistan, the fact is that its popular base seems fairly superficial. Pakistan’s three major religious parties have never secured greater than 6 percent or so of the popular vote in national elections; and their highly touted capacity for mobilizing “street power,” when confronted with the emotionally provocative American bombing of Afghanistan in late 2001, apparently failed the test. Skepticism is also warranted in regard to frequent claims by American observers in recent years of “creeping talibanization” in the Pakistan Army itself—

<sup>15</sup> *Transition 2001* (Washington, D.C.: The Rand Corporation, January 2001), p. 45.

<sup>16</sup> J. Malik, *Colonization of Islam: Dissolutions of Traditional Institutions in Pakistan* (Lahore: Vanguard Books, 1996), p. 196.

<sup>17</sup> S. V. R. Nasr, “The Rise of Sunni Militancy in Pakistan: The Changing Role of Islamism and the Ulama in Society and Politics,” *Modern Asian Studies* Vol. 34, No. 1 (2000), p. 142.

into its officer corps, in particular. Sumit Ganguly, an Indian-born South Asia specialist at the University of Texas, says such talibanization has progressed quite far indeed. According to him, “many midlevel officers raised under Zia [ul-Haq] share the religious zeal of the fundamentalists.”<sup>18</sup> Samina Ahmed, a Pakistan-based analyst with the International Crisis Group, a transnational NGO headquartered in Brussels, disagrees. According to an account in the *Los Angeles Times*, she considers the notion of a powerful Islamic element within the army to be misplaced, arguing instead that the army’s long-standing support for jihad groups had generally been tactical rather than philosophical.<sup>19</sup> Settling the issue empirically, admittedly, is likely to be daunting. After all, the Pakistan Army, with over 500,000 troops, has an officer corps numbering in the tens of thousands. One may safely assume, in view of recent history, that many of them harbor some resentment towards the West, the United States in particular. But how would one go about securing credible evidence of the quantum of “religious zeal” among them that approximated that of the “fundamentalists”? Citing the outrageous and deliberately inflammatory remarks of one or two retired and allegedly “Islamist-minded” generals, a practice especially common among Western media commentators, does not equate to convincing evidence.

Third, even in those places in South Asia where political oppression of Muslims has been commonplace, their conversion to radicalized Islam—and corresponding greater susceptibility to Pakistan’s overt or covert machinations—has been extremely slow in coming. In the Indian state of Jammu & Kashmir, where the Kashmiri Muslims—following decades of heavy-handed state repression—might seem to have ample reasons to turn *en masse* to Islamic extremism for their salvation, they have mainly not done so. Pressed to the wall by Indian security forces, they have by necessity welcomed the military assistance of Pakistan together with its foreign and radically minded militant allies; however, according to the thoughtful assessment of Yoginder Sikand, the discourse of radical Islam has never found fertile soil among them. The Islamists, he says, “have received little support from the Kashmiri masses themselves, who seem to favor a considerably more liberal version of their faith.... It would seem, then, that the Kashmiri nationalist forces, with their dream of a free, democratic, independent Kashmir, still do command the loyalties of most Kashmiris, the efforts of the Islamists and of both the Indian as well as Pakistani establishments notwithstanding.”<sup>20</sup>

In sum, political Islam appears to be far less powerful than often argued. It has achieved a solid and permanent mass following in no society—certainly not in Pakistan, but neither in Iran or even Afghanistan. If the assessments expressed in Singapore were on target, then nowhere in Southeast Asia either has political Islam so far acquired a mass following. Far from posing an insuperable challenge—an “Islamic Threat”—to Asian governments, political Islam has actually proven quite susceptible to regulation and control. Where it has gotten “out of hand,” as in Afghanistan and Pakistan, the blame is largely that of failed or failing governments, not of wildly

<sup>18</sup> Sumit Ganguly, “Pakistan’s Never-Ending Story,” *Foreign Affairs* Vol. 79, No. 2 (March/April 2000), p. 6.

<sup>19</sup> Kim Murphy, “Political Shift Stifles Islamic Anger At U.S.,” *Los Angeles Times* web-service, 10 December 2001.

<sup>20</sup> Yoginder Sikand, “Changing Course of Kashmiri Struggle: From National Liberation to Islamist Jihad?” *Economic & Political Weekly*, 20 January 2001, p. 227.

popular movements. Political Islam is, in a few Asian societies, a serious aggravation; but it is an insuperable threat to the stability of none of them, Pakistan included.

**What Ought to be Done about Political Islam to Bolster Pakistan's Prospects first for Achieving and then for Sustaining a Pluralist Political Community?**

In spite of its manifest weaknesses and failures, political Islam is indisputably a powerful and potentially destabilizing phenomenon in Pakistan—a country whose surface appearance of Islamic homogeneity masks a profoundly diverse society. How political Islam evolves in coming years will inevitably impact upon the political evolution of Pakistan itself—whether, in other words, it will proceed in the direction of greater respect for cultural diversity, religious tolerance in particular, or whether it will move in the direction of increased religious exclusiveness, extremism, and orthodoxy. Movement in the latter direction will obviously impact adversely on whatever prospects now exist for building a Pakistani national identity reasonably matched to the country's ethnic and religious diversity. What is the best advice, when all is said and done, that one can offer Pakistan (and states friendly to it) about “containing” political Islam?

Pakistan is presently confronted with a host of unusually painful and—in more than a few instances—extraordinarily portentous public policy choices. These range all the way from how to go about reforming the country's admittedly malfunctioning political system to how far to go in accommodating India's (and Washington's) demand for the complete dismantling of the “terrorist infrastructure” that serves Pakistan's Kashmir policy. Most of these choices are intimately related to—and interdependent with—one another: What Islamabad ultimately chooses to do about its thousands of *madrasas*, for example, cannot be decided apart from decisions about both domestic political reforms, since these are impossible without widespread popular support, *and* about Pakistan's desired future political relationship with India, which cannot be decided in isolation from the Kashmir cause's institutionalized support base in Pakistan.

Another way to put this is to say that Pakistan's decisional matrix is about as confused and confusing as one can imagine. Three “rules of thumb” might help unravel it.

First, It seems far more plausible that the problem of political Islam in most Asian countries, including Pakistan, is one of too much government control, especially of the wrong—repressive—sort, rather than too little. Observe, for instance, that a number of Asia's radicalized Muslim minority movements (as in India, the Philippines, and China) are in part byproducts of frustrated separatist movements within predominantly *non-Muslim* societies. Observe also, however, that in more than a few of Asia's *Muslim-majority* societies can be found abundant instances of severe government repression of Muslim groups (be they of the Sunni, Shi'a, Ahmadi, or other sects) contributing to the political radicalization of Islam. From all reports, the governments of Uzbekistan, Turkmenistan, and Tajikistan fit comfortably in this category. About President Islam Karimov's regime in Uzbekistan, for instance, a recent Human Rights Watch report states: “There are no political parties, no independent media, no civil society of any sort. Efforts by Muslims to pray outside

the state-controlled mosque are met harshly, with torture and long prison sentences frequent.”<sup>21</sup>

The post-September 11 war on terrorism itself may well turn out to have far greater and longer-lasting effects on domestic than on international politics. Ironically, these effects, as pointed out by Amitav Acharya, Deputy Director of the Institute of Defence and Strategic Studies in Singapore, may be overwhelmingly negative. “Who,” he asks, “is to prevent governments from using national security as a camouflage for regime survival? By creating a sense of national unity and purpose, however brief and superficial, the war against terrorism, like any war, presents governments with an opportunity to outmaneuver their political opponents.... The war against terrorism thus easily translates into a war against freedom.” “Who,” he also asks, “tells the nations belonging to the global anti-terror alliance that their fight against a tactic (terrorism) must not come at the expense of a willingness to address the cause (demands for self-determination)?” “The post-September 11 world order,” he concludes, “has suddenly become less hospitable for human rights around the world.”<sup>22</sup>

In the case of Pakistan, political Islam has clearly flourished most in periods of direct military rule; conversely, it has performed most dismally in periods of democratic rule. Unfortunately, this doesn’t translate axiomatically into any sort of guarantee that civilian rule will produce stability and preclude radicalization. There are too many variables in the mix to allow for that. But if anything has grown clearer in Pakistan in recent months, it is that substantive restoration of political democracy is a *necessary*, even if far from sufficient, antidote to continued radicalization of the Pakistani polity. This is definitely not because elected rulers are necessarily more effective battlers against extremists. They may, in fact, be less effective. It is because Pakistan’s military rulers, by virtue of their inescapably dubious claim to power, are sooner or later driven to embrace Pakistan’s relatively unpopular but well organized political right wing—to garb themselves in Islam, so to speak, since secular ideologies and programs have already been preempted by the democratic parties. The price of this embrace, as we have witnessed again and again in Pakistan, is tolerance of the right wing’s less savory activities.

A second rule of thumb: Pakistan’s present geo-political circumstances leave no doubt that what its Indian and other detractors are fond of calling its “adventurism” in Kashmir has got to be drastically scaled back—if not entirely foresworn. The encouragement and material cross-border support of Kashmiri separatism, regardless of the justice of the cause, is presently greatly out of favor with practically the entire international community, most conspicuously the United States. On pragmatic grounds, therefore, Islamabad has got to move deliberately towards a new Kashmir policy—one as strongly supportive as ever, perhaps, of the moral righteousness of the Kashmiri desire for self-determination, but one that methodically weeds out those

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<sup>21</sup> “Introduction” to *Human Rights Watch World Report 2002* (Washington, D.C.: Human Rights Watch, February 2002).

<sup>22</sup> Amitav Acharya, “States, Societies and Civilizations: Interpreting September 11 for Asia and the World,” in *Worlds in Collision: Terror and Global Order* (London & New York: Palgrave, forthcoming 2002). Quotations are from a draft copy of the article supplied by its author.

aspects of the old policy that fed the taste for violence of the militant outfits and that at the same time lent themselves to allegations of state-sponsored terrorism.

The third and final rule of thumb is that neither of the first two rules have a ghost of a chance of being implemented successfully by Pakistan without a massive change in international, especially American, attitudes about the Subcontinent. Specifically, there would need to be some sort of American guarantee to buffer Pakistan from the old-fashioned geopolitical rivalries that are still potent in the region despite being overshadowed recently by the war on terrorism.

The September 11 terrorist attack was undoubtedly the worst single terrorist incident in history. It was a monstrous crime and a terrible tragedy for many individuals. Americans had good reason to feel outraged. As American historian Paul W. Schroeder put it, however, “it was not a *national* tragedy, much less a national disaster or catastrophe. On the scale of real national disasters and catastrophes in the world over the last fifty years it would not rank in the top hundred.”<sup>23</sup>

The magnitude, scope, and intensity of the American response to the attack have been surprising, but even more surprising has been the Asian response. Some of it, as when Pakistan’s former Prime Minister Benazir Bhutto, in a Reuters interview, accused President Musharraf of remaining part of an establishment riddled with radical Islamists, can be written off as political opportunism.<sup>24</sup> And some of it, as when India and Pakistan engaged in a “war of lists”—each side demanding the extradition of “known terrorists” harbored by the other—represents diplomatic gamesmanship.<sup>25</sup> But the nearly solid wall of initial support from all the Great and Near-Great Powers for Washington’s summons to the war on terrorism is puzzling.

Undeniably, countering the “Islamic jihad” stands today implicitly or explicitly at or near the top of innumerable national and international political agendas. Is it clear, however, that all the members of the global coalition against terrorism—a list that includes the likes of China, India, Russia, the United States, and Japan, not to mention Pakistan—are genuinely united in the belief that religion-inspired terrorism is the gravest of world evils and reason enough to set aside all differences in the cause of a “global war” against it? In the aftermath of September 11, are the venerable stand-bys of philosophical realism—the “national interest,” “power politics,” and “power balancing”—*out* and moral crusading against evil *in*?

This seems unlikely when one considers that traditional geopolitical interests and rivalries are, indeed, alive and well in Asia—perhaps momentarily set aside in a tactical retreat brought on by overwhelming American pressures, but alive and well just the same. Afghanistan may or may not have been the site of a “fault-line war” in a “clash of civilizations,” but it was—and is—unquestionably the site of a clash of interests. In fact, political Islam is important not solely or even mainly by virtue of its intrinsic qualities, its fanaticism or lack thereof, for instance, but because of its location—its political geography. It is where it is, not what it is, that commands the world’s

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<sup>23</sup> Paul W. Schroeder, “The Risks of Victory: An Historian’s Provocation,” *The National Interest* No. 66 (Winter 2001/02), p. 34.

<sup>24</sup> “South Asia,” Asianint Weekly Alert, 28 January 2002.

<sup>25</sup> Sudha Ramachandran, “Pakistan In a Twist in War of Lists,” *Asia Times Online*, 5 February 2002.

attention.<sup>26</sup> “Islam,” said Huntington, as we noted above, “has bloody borders.” It would have been more precise and a lot less misleading had he instead said: “The geographic space in which Islam is the preponderant faith has bloody borders.” Putting it that way would obviously have been less striking, too cumbersome as a one-liner. But Huntington would have been highlighting an important fact: that in that geographic domain in which Islam happens to find itself there are ongoing and keenly competitive inter-state strategic contests springing from multiple rival interests. Virtually all of these interests were in place long before Osama bin Laden—a few of them possibly even before Islam itself—arrived in Afghanistan. They include acute rivalries over oil and natural gas resources, of course, but also over such mundane things as water, territorial boundaries, access routes, weapons acquisitions, strategic alliances, political ideology, and so on, the highlighting of which, had Huntington chosen a different set of words, would have attached an old-fashioned geopolitical and only partially cultural meaning—something more akin to the Great Game—to the contemporary clash of civilizations. These rivalries are intense and bloody, no doubt. Highlighting *them* rather than Islam, however, would have avoided the implication that Islam itself was somehow the agent of death. As Paul Schroeder suggests:

In retrospect, it might have been wiser [for Washington] to treat the attack [on the WTC and Pentagon] as a horrible criminal action (which it also was) that had to be answered by a major international police action against the criminals (which the current operation also is), but without declaring war on terrorism and thereby giving an inflated importance to both the threat and the perpetrators. Many countries have had to combat long-term terrorist threats and campaigns more dangerous to their security than this one is to ours without declaring a general war on terrorism as a phenomenon and on all terrorists in general.<sup>27</sup>

In choosing to maximize the importance both of the threat and the perpetrators, the Bush administration has inadvertently reinforced an interpretation of political Islam I think it does not deserve. Worse, it leads to an interpretation of the way out of Pakistan’s particular dilemmas that simply cannot succeed. Islamabad would be most ill-advised to accept the first two rules of thumb outlined above unless given an ironclad guarantee that the security of Pakistan against external threat (meaning essentially India) would be granted simultaneously—by the United States—to compensate Pakistan for its agreement to move ahead on those two rules. Any such step by the United States would, of course, represent a major departure from its past practice; but anything less than this, given the magnitude of the shifts in policy being sought from Islamabad, would be an invitation to failure.

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<sup>26</sup> For this useful way to phrase the issue, I am indebted to Chris Jaspardo, my colleague at the Asia-Pacific Center for Security Studies in Honolulu.

<sup>27</sup> Schroeder, “The Risks of Victory,” p. 26.

## APPENDIX 13.1

### Muslim Populations in Asia-Pacific<sup>1</sup>

Region/country	No. of adherents	% total population	Year
<b>World</b>	1,300,000,000	22.00%	2000
<b>Asia</b>	812,000,000	22.63%	1998
<b>Asia-South</b>	375,000,000	-	1998
Australia	101,000	0.50%	2000
Bangladesh	127,628,304	88.40%	2000
Bhutan	108,000	5.00%	2000
Brunei	146,900	68.00%	2000
Canada	464,000	1.50%	2000
China-Xinjiang <sup>1</sup>	8,200,000	63.00%	1993
Comoros	396,550	99.60%	2000
Fiji	66,000	7.80%	2000
India	127,131,000	12.00%	2000
Indonesia	182,503,504	87.00%	1997
Japan	150,000	-	1996
Korea, South	6,000	0.01%	2000
Laos	57,000	1.00%	2000
Madagascar	356,000	2.00%	2000
Malaysia	10,806,000	49.00%	2000
Maldives	204,660	99.90%	2000
Mauritius	213,700	17.00%	2000
Mongolia	29,000	1.00%	2000
Myanmar	1,976,000	3.60%	2000
Nepal	652,000	2.80%	2000
New Zealand	2,000	0.05%	2000
<b>Oceania</b>	248,000	0.84%	1998
Pakistan	142,272,000	96.80%	2000
Papua New Guinea	500	-	1996
Philippines	3,857,000	4.30%	2000
Russia	7,000,000	8.50%	1995
Singapore	506,400	16.20%	2000
Solomon Islands	70	-	1996
Sri Lanka	1,622,000	7.60%	2000
Taiwan	150,000	0.60%	2000
Thailand	3,300,000	3.90%	2000
Tonga	80	-	1996
United States of America	5,730,000	2.10%	2000
Vanuatu	40	-	1996
<b>Vietnam</b>	<b>531,000</b>	<b>0.70%</b>	<b>2000</b>

<sup>1</sup> All population figures as drawn from [www.adherents.com](http://www.adherents.com)

<sup>2</sup> One all-China estimate of Muslim population in this source is 37,108,000.





## CHAPTER 14

### GOVERNANCE IN SOUTHEAST ASIA: The Good, the Bad, and the Ugly

DONALD E. WEATHERBEE

#### Introduction

By 1999, the Association of Southeast Asian Nations (ASEAN) had achieved its 1967 vision of political regionalism by expanding membership to all 10 of the sovereign states in geographic Southeast Asia.<sup>1</sup> But this regional solidarity is only skin-deep in terms of politics. Within ASEAN there is no uniform political quality that would permit generalization about shared political values, culture, and institutions. There is no ASEAN analogy to the “social democracy” underpinning European integration.

However, these differences, particularly the region’s wide disparities in governmental performance, provide an illuminating context in which to examine what constitutes good governance. To many political scientists governance is not about politics. It is administration. But to grasp and keep the right to govern the state is the instrumental goal of politics. This chapter addresses this dimension of state activity. The approach adopted is that governance should be evaluated in terms of outcomes rather than form and institutional foundations. This follows from a key proposition, one adopted by the Asian Development Bank (ADB), that even given the great diversity of political systems and institutional structures in the Asian region, none of them can reasonably claim to have any comparative advantage from the point of view of governance.<sup>2</sup>

#### The Concept of Governance

“Governance,” at the nation-state level of political organization, refers to the exercise of authority over a defined population. Authority is the capability to make decisions binding on that population by reasons of affective loyalty, habituation to the legal order, calculations of interest, or, in the last analysis, coercion. The social/legal framework through which political authority is wielded is the state, the territorial boundary of which defines the population subject to the political authority. It is

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<sup>1</sup> The original five members of ASEAN in 1967 were Indonesia, Malaysia, the Philippines, Thailand, and Singapore. Brunei became a member at its independence in 1984. Vietnam was accepted as a member in 1995, followed by Laos and Myanmar (Burma) in 1997, and finally Cambodia in 1999.

<sup>2</sup> Asian Development Bank, *Governance: Sound Development Management* (Manila: ADB Policy Paper, 1995).

political authority's connection to the state that distinguishes it from authority expressed through other social frameworks. The wielders of political authority—the government—are the individuals or groups whose formal or informal decision-making roles are ultimately related to state structures and institutions. Their claim to authority can be derived from a variety of sources: hereditary tradition, constitutional practice, expressions of popular will, oppressive coercive force, or a combination of factors. The exercise of authority, or governance, involves the allocation of material, social, and value goods to institutions, groups, and individuals in the state and the extraction, mobilization, and deployment of the human, material, and symbolic resources to support governance. To paraphrase Lasswell's famous statement, governance is the distributive aspect of who gets what, when, and how in a society; that is, the creation and enforcement of public policy.<sup>3</sup> This definition of governance is relatively values-free and universal, characteristic of authority in any state at any time. Whether the government is democratic or authoritarian, military or civilian, capitalist or socialist, the task of governance is the same.

### *Good Governance*

Good governance is that which performs its tasks and meets its challenges effectively, efficiently, and in a manner that contributes to the legitimacy of authority (the general approval of the people). Legitimacy can be demonstrated in a number of ways, both active and passive. It does not require free and fair elections. Suharto's Indonesia at mid-course is a case in point. In terms of real social and economic progress, it had what Liddle called "developmental legitimacy" rather than "democratic legitimacy," what I have elsewhere called "instrumental legitimacy."<sup>4</sup>

The tasks of governance touch nearly every aspect of public life. We can evaluate the quality of governance by the success or failure in attaining the major goals of governance. These include, mentioning only a few of the most important goals:

- securing and defending the integrity of the state
- providing for public order and domestic security
- promoting political, social, and economic policies in the interest of the public good
- implementing those policies fairly and uniformly to the boundaries of the state and inclusive of all elements of the population
- mobilizing and deploying the resources necessary to perform the tasks of governance

Good governance is demonstrated when, in the context of a state's particular political, social, cultural, and economic situation—its uniqueness—the governing

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<sup>3</sup> Harold K. Lasswell, *Who Gets What, When, and How* (Glencoe, IL: The Free Press, 1936).

<sup>4</sup> R. William Liddle, "A Useful Fiction: Democratic Legitimation in New Order Indonesia," in R. H. Taylor, ed., *The Politics of Elections in Southeast Asia* (Washington DC; Woodrow Wilson Center Press, 1996), p. 42; Donald E. Weatherbee, "Indonesia: Electoral Politics in a Newly Emerging Democracy," in John Fuh-Sheng and David Newman, eds., *How Asia Votes* (New York: Chatham House, 2002), p. 261

authority formulates and implements (to the degree possible) public policy clearly designed to achieve these goals. The keys to good governance are leadership's political will and political capacity. Political will is the conscious intention of leadership to act in a way conducive to good governance. Political capacity refers to leadership's ability to move the political, bureaucratic, and military institutions of the state in the direction of good governance. An evaluation of the quality of governance is a relative judgement, but it is based on performance.

In the scope of this chapter we can only examine one case of governance in any detail, that of Indonesia. Indonesia's poor governance starkly illustrates that a lack of political will and capacity brings potentially serious consequences. The fact that it is a democracy also underlines the contention that good governance is not necessarily dependent on the form of government but on whether that government delivers results. First, to put Indonesia in its ASEAN context, a few general comments on the regional governance scale of good to bad are in order. Singapore is generally considered to be the model of good governance in Southeast Asia. Malaysia and Thailand fall in a second tier of relatively "good." The Philippines occupies a third tier, but still on the "good" side of the scale. At this point we move from good to bad. Bad governance is defined here as the absence of political will or capacity, or both, to move towards the goals that serve as our criteria for the quality of governance. Laos, Cambodia, and Vietnam fall in this category. Myanmar and Indonesia are at the bottom. Because the consequences of bad governance in Indonesia are so grave in terms of the implications for Southeast Asia's regional political and security order should the Indonesia state collapse, it can be singled out as a case of "ugly" governance.

If Singapore is the paradigm for good governance in Southeast Asia, it may be instructive to refer to the principles of governance informing Singapore authority.<sup>5</sup> According to Prime Minister Goh Chok Tong, good governance in Singapore is built on three interrelated factors: accountability and transparency, long-term social orientation, and social justice.<sup>6</sup> Policies are designed for the long-term good, not what will please in the short term. This requires strong leadership with a vision and clear direction. The watchwords for policy are flexibility and adaptability in pragmatic anticipation of change. Government is held as a trusteeship rather than an agency of special interest. Good governance is not only about policy. It depends on the implementation of that policy. For that, an independent, honest, and efficient civil service is critical. The foundations for such a civil service are education, meritocracy, and incorruptibility. The ADB's previously cited statement on governance says that good governance involves norms of behavior that help ensure that governments actually deliver to their citizens what they promise to deliver. These norms include accountability, transparency, participation, and predictability. The fundamental underpinning for good governance is the rule of law. Only with the rule of law can

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<sup>5</sup> For an interesting discussion of the way the concept of "good government" is used politically in Singapore and Malaysia see Surain Subramaniam, "The New Narrative of 'Good Governance': Lessons for Understanding Political and Cultural Change in Malaysia and Singapore," *Contemporary Southeast Asia* 23:1 (2001), pp. 65-80.

<sup>6</sup> Goh Chok Tong, "Governance Principles," excerpt of a speech by Prime Minister Goh Chok Tong, (<http://www.moe.edu.sg/neu/factfiles/pub-content-governance.html>).

the other requisites such as accountability, incorruptibility, and transparency be guaranteed.

#### *Governance and Economic Development*

There is a great diversity in the stages of development and levels of performance of the economies of Southeast Asia. At one end, leaving aside the Brunei anomaly, there is the high-tech, IT-based economy of Singapore, the land of the five Cs: careers, condos, clubs, credit cards, and cars. At the other extreme is Cambodia, a land still recovering from a generation of warfare. In between, depending on how one ranges the macroeconomic indicators—per capita GDP being a popular measure—we find in descending order Malaysia, Thailand, the Philippines, Indonesia, Vietnam and Laos. Myanmar falls somewhere in the Laos-Cambodia range.<sup>7</sup>

The analytical question is: How do we relate the level of a state's economic performance to its governance? To answer is not to make absolute statistical comparisons but to examine how well the resource endowment underpinning the particular economy is being managed. For example, Laos can never be a Singapore but must it stay in its reduced circumstances of derelict penury? If we take the 1997 ASEAN financial crash as another example, the issue of governance is how those countries most affected—the non-socialist market economies—dealt with the crisis. Which leaderships had both the political will and capacity to manage and adapt to the changed economic circumstances? The answer is clear: Thailand, Malaysia, and Singapore. For Suharto's Indonesia, the 1997 crisis was the turning point. Public interest was sacrificed for family and cronies. For Vietnam, the issue of governance and the economy has to do with managing a transition from centrally planned to market-based allocation of resources and pricing. The fact that it is occurring at all is on the plus side. The economy of Cambodia is best described as a criminal enterprise linking Thai, Singaporean, Taiwanese, and Japanese exploiters to their Cambodian counterparts. In Myanmar, economic mismanagement as the military plunders the people is leading to economic catastrophe.

#### *Corruption*

Perhaps the most obvious mark of the quality of governance is the degree to which public interest is subverted by corruption. The ADB defines corruption as the abuse of public or private office for personal gain. This means any behavior in which people in the public or private sectors improperly and unlawfully enrich themselves or those close to them or induce others to do so.<sup>8</sup> This is a relatively narrow definition attuned to the economic requisites of development. In a broader sense corruption also comprehends the unlawful manipulation of the political system through “money politics” or intimidation.

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<sup>7</sup> The per capita GDP (GNI) figures from the World Bank's 2001 *World Development Indicators* data base are: Singapore, \$24,750; Malaysia, \$3,370; Thailand, \$2010; Philippines, \$1044; Indonesia \$570; Vietnam, \$390; Laos, \$330; and Cambodia, \$260. The Bank had no current data for Myanmar but based on 1997 figures it is probably \$300 or less. Indonesia has sunk into ASEAN's third tier and is significantly below China's figure of \$840.

<sup>8</sup> Asian Development Bank, *Anticorruption Policy* (Manila: ADB Policy Paper, 1998).

The costs of corruption in terms of good government are high. Corruption encourages inefficiencies in the allocation of scarce economic and social resources. Resources intended for the public good are lost or squandered. Corruption degrades the performance of the political system as a whole. It causes a loss of confidence in the government and promotes a broader avoidance of obligations and regulations. It leads to a breakdown of institutional and bureaucratic command, control, and accountability thereby undermining the *sine qua non* of good government, the rule of law.

No country in Southeast Asia, even Singapore, is immune from corruption.<sup>9</sup> In some cases it has been spectacularly demonstrated at the most senior level of leadership. In 2001, three Southeast Asian heads of government were simultaneously under investigation for alleged corruption: President Abdurrahman Wahid in Indonesia, President Joseph Estrada in the Philippines, and Prime Minister Thaksin Shinawatra in Thailand. In most Southeast Asian countries corruption always lurks in the background of elite transactions. Corruption becomes a problem when it is so dysfunctional that it slows or prevents the attainment of the goals of good governance. In some countries corruption is so systemic that it has replaced the rule of law (in Cambodia and Indonesia, for example) and the corrupt shrug it off with a sense of impunity when they are exposed. In other countries the rule of law has been corrupted to stifle democratic opposition: Malaysia and Singapore for example. In some countries military professionalism has been hollowed out because of corruption: the Philippines and Indonesia for example. From the point of view of businessmen the most corrupt countries in Southeast Asia are Vietnam and Indonesia.<sup>10</sup> Like other indicators of a poor quality of governance, the consequences of corruption are far more serious for Indonesia.

### **Indonesia: the “Ugly”**

It has become almost commonplace to characterize Indonesia’s sorry state of affairs as a crisis of governance. A frustrated President Megawati has likened her government to a “garbage dump.”<sup>11</sup> A recent book about contemporary Indonesia was titled *A Country in Despair*.<sup>12</sup> All of the symptoms of state decay seem present. To mention only a few: loss of *de facto* control over parts of the country, rampant crime, the rise of non-state agents of coercion, accelerating environmental degradation, the breakdown of infrastructure, nearly a million and a half internal refugees, growing impoverishment, unconstrained corporate and public corruption, and institutional incapacity. At the center stands an immobile government without vision or direction; its eyes fixed not on the tasks of governance but personal power, status, and wealth.

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<sup>9</sup> For a survey of corruption in Southeast Asia see Dini Djalal, “Southeast Asia,” in *Global Corruption Report 2001* (London: Transparency International [http://www.globalcorruptionreport.org]).

<sup>10</sup> Every year Hong Kong-based Political and Economic Risk Consultancy (PERC) has expatriate businessmen grade countries on a corruption scale of 0–10 with 0 being the cleanest. In Southeast Asia Singapore is always the cleanest with Indonesia and Vietnam being the most corrupt. Malaysia, Thailand, and the Philippines follow Singapore in that order.

<sup>11</sup> *Tempo interactive*, 11 February 2002.

<sup>12</sup> Kees van Dijk, *A Country in Despair* (Leiden: KITLV Press, 2001).

The brand of governance in Megawati's Indonesia mocks the 1998-1999 call for *reformasi* (reform). In fact, as one perceptive critic put it, the term *reformasi* itself "can no longer be used with reference to actual democratic forces."<sup>13</sup> What has emerged from the wreckage of Suharto's New Order is a government largely made up of Suharto-era politicians and bureaucrats but without the institutional capabilities of Suharto's state. The government has demonstrated neither the political will nor capacity to address the fundamental challenges to governance including the survival of the state itself. In terms of the criteria for good governance and its principles, Indonesia fails so dismally that its governance can truly be called "ugly."

It can be argued in defense of the Megawati government that its stasis is the function of contending political forces preventing decisive action. Since the fall of Suharto the presidency has been locked in a power struggle with the parliaments. Behind the smoke screen of allegations of physical incapacity and corruption, it was Abdurrahman Wahid's refusal to bend to parliament that led to his impeachment. Although a constitutional question, the struggle is political and continues under Megawati. Then there is a massive bureaucracy stubbornly and successfully resistant to change. Since the fall of Suharto, while elites jockey for power in Jakarta, the battle for the hearts and minds of Indonesia's majority Muslim population has become part of an increasingly bitter public discourse. The clamorous and threatening posture of militant Islamists and violence-prone radical militias cow the voices of Islamic moderates. Countrywide, the constitutionally prescribed basis of the unitary state is challenged from the regions, provinces, and even lower levels of government. Finally, there is the military, the TNI (*Tentara Nasional Indonesia*), perhaps waiting in the wings for the call to restore stability and order. The logic of an argument that Megawati is trapped by circumstances leads to the conclusion that perhaps Indonesia in its current political configuration is ungovernable.<sup>14</sup> A brief discussion of some of the more obvious manifestations of ugly governance will underline this point.

### *Corruption*

Opposition to KKN—*korupsi*, *kolusi*, and *nepotisme*—motivated the street demonstrators who were the shock troops of the campaign to topple Suharto. Now, four years and three presidents later, efforts to eradicate KKN have sputtered out. The only thing that seems to distinguish the present government from Suharto's in terms of KKN is the absence of the Suharto family as feeders at the public trough. Even though allegations and evidence of corruption at the highest levels of government abound there is no sense of urgency or even need to hold members of the elite to account. Even in the very few cases where proceedings have been instituted against prominent figures, public expectations are that nothing will happen since the courts are corrupt as well. The head of the State Audit Board has complained that the current government is no better than its predecessors in fighting

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<sup>13</sup> Nico Schulte Nordholt, "Indonesia, A Nation-State in Search of Identity and Structure," *Bijdragen tot de Taal-, Land- en Volkenkunde* 157:4 (2001), p. 885.

<sup>14</sup> For examples of this logic see John McBeth, "Nothing Changes," *Far Eastern Economic Review*, 1 November 2001, pp. 16-19; Lee Kim Chew, "Megawati's ship is going adrift," *Straits Times interactive*, 12 January 2002.

corruption.<sup>15</sup> There is a culture of corruption that pervades every level of government. Scandal after scandal engulfs the government but only rarely with legal consequences. It is little wonder then that corrupters are empowered with a sense of impunity.<sup>16</sup>

The sense of elite impunity cuts across all levels of official accountability. For example, by law a Commission for Investigating Human Rights Violations (KPP HAM) has been set up to investigate and report for possible prosecution of serious human rights violations.<sup>17</sup> Three incidents involving the TNI's use of deadly force against student protesters in 1998 and 1999 are on the commission's agenda. In 2002, Seven generals and 12 other military and police officers twice refused summons to appear before the commission. Nor did the government take measures to ensure compliance with the summons. The TNI's senior legal officer bluntly stated that, "no Indonesian military personnel will respond to a summons from the KPP HAM. KPP HAM is not valid and has no legal basis."<sup>18</sup>

### *Economic Capabilities*

The Indonesian economy lags far behind the other market economies of ASEAN. The management of the economy in terms of political will and capacity is better compared to Myanmar but poorer if compared to Malaysia, Thailand, or even the Philippines. Foreign investment in Indonesia fell nearly 42 percent in 2001 as political instability, social unrest, legal uncertainty, and violence made other investment climates more attractive. Unemployment rose to more than 40 million with three million new job seekers coming on the market annually in an economy that creates only 1.6 million jobs a year.<sup>19</sup> The poverty index reached 50 percent in 2001. The economy is dragged down by an enormous debt burden of \$140 billion, a staggering 85 percent of the country's GDP. With the country still mired in the ruins of the 1997 crash, Coordinating Minister for Economic Affairs Dorodjatun Kuntjoro-Jakti warned that there might be a "second wave of problems like Argentina." The only solution, he added, was that everyone must support "what we agreed to do in 1998."<sup>20</sup> The problem is that not everyone supports the measures worked out with the IMF and other creditors. Some, in fact, actively oppose them. A few examples will suffice to demonstrate the governance issues.

Between 1998 and 1999, to rescue the banking sector the government advanced \$14.3 billion in liquidity support loans with a four-year repayment schedule. In August 2000 the State Audit Board reported that 95 percent of the loans had been misused or

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<sup>15</sup> Billy Yudono, as reported in the *Straits Times interactive*, 23 January 2002.

<sup>16</sup> According to a 1999 law, elected officials and government civil servants are required to make a declaration of assets to the Official Wealth Audit Commission. By 2002, less than ten percent of the more than 50,000 officials covered by the act have complied.

<sup>17</sup> The relevant laws are Law 9/1999 on Basic Human Rights and Law 26/2000 on the Human Rights Court. These laws and other "democratic" laws were passed by the parliament in the flush of *reformasi*. Since then the political effort has been to emasculate them. The situation can be compared to the desire of Thai legislators to weaken critical part of the new democratic constitution, particularly with respect to clean elections.

<sup>18</sup> Major General Timur P. Manurung as quoted in "Outranking the Law," *Tempo*, 12-18 February 2002.

<sup>19</sup> These figures were provided by Minister of Manpower Jacob Nuwa Wea and reported in *The Jakarta Post*, 22 December 2001.

<sup>20</sup> Remarks of Dorodjatun Kuntjoro-Jakti, "Update on Economic Reform in Indonesia," USINDO Economic Briefing Series, 5 February 2002.

diverted. It is no wonder that most of the Indonesian Bank Restructuring Agency (IBRA) debtors have not made a single repayment. Of the some 2,400 legal cases mounted against uncooperative debtors only ten percent have been concluded, with the government usually on the losing side. Giving up on aggressively pursuing politically connected delinquents and malefactors, in early 2002 the government proposed extending the debt repayment schedule to ten years at a lower rate of interest than originally contracted. This was inconsistent with the IMF's requirement of strengthening compliance and securing legal certainty as part of a clear strategy to recover the loans. Faced with the IMF's threat to withhold forthcoming *tranches* of negotiated loans, the government backed down. Even if the government should drastically change its tactics (a doubtful proposition) and liquidate the assets held as collateral, the value of the assets is conservatively calculated as only about thirty percent of the total outstanding loans.

The debt recovery issue is but one part of the larger picture of corruption and political unwillingness to take the necessary steps to put Indonesia's financial house in order. Another part of IBRA's strategy as outlined in Indonesia's successive "Letters of Intent" to the IMF has been the sale of the government's stakes in debt-ridden enterprises. IBRA's record in this regard has been plagued by a lack of transparency, leading to strong suspicions that politically connected former owners are negotiating buy-backs at less than fair value. In cases like that of Bank Central Asia, IBRA's largest single debtor, the government's intention to sell its 51 percent stake to foreign financial houses was delayed for months by politics wrapped in the banner of economic nationalism. Politicians and labor have also resisted the privatization of state enterprises. For example, the government's sale of its interest in Gresik Cement to Mexico's Cemex was stalled because of local opposition to the inclusion in the sale of Padang Cement, a Sumatran subsidiary of Gresik Cement. Local political, business, and religious elites persuaded the West Sumatra legislature to take over Padang Cement, in effect a "provincialization" of a national enterprise to forestall privatization. The implications of this for future privatization cannot be ignored. Mohammad Sadli, a distinguished former Minister of Economics, said of the tussle between Jakarta and West Sumatra that "the central government must win, or pretty soon there will be no central government."<sup>21</sup> Jakarta's cave in to local resistance further eroded what little confidence foreign investors might have in its capacity to deliver rational economic policy.

#### *Breakdown of Law and Order and Internal Security*

One of the tasks of good governance is to provide for domestic security guaranteeing the physical safety and legal rights of all citizens. In Indonesia domestic security is increasingly at risk. There is rising tide of criminality that a demoralized, undermanned, poorly trained, poorly led, and corrupt police force cannot stem. This has led to vigilantism, mob justice, militia formations, and other acts of self-defense as confidence in the protection of state-authorized institutions of law and order wanes.

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<sup>21</sup> As quoted in Sadanand Dhume, "High Noon in Provincial Padang," *Far Eastern Economic Review*, 15 November 2001, p. 16.



It is an irony of Indonesia's aspiring democracy that major political parties and social groupings have armies of thugs operating outside of the legislative arena to promote their political message through intimidation. Militant Islamic groups conduct "sweeping" operations to eliminate offensive behavior and businesses. It is sometimes difficult to find the boundary between religious zeal and looting. In most cases, protest against organized gangs of whatever political, religious, or criminal persuasion is met by official indifference and inaction.

At a second and even more ominous level of collapsing internal security, groups of citizens are making war on other groups of citizens while the government seems unable or unwilling, or both, to restore domestic peace and order. Brawling ethnic gangs are not uncommon in the cities. Even Bali has not escaped inter-ethnic violence. Ethnic and sectarian violence has become endemic, from random acts of arson and bombings to Bosnian-like ethnic cleansing. For example, in three years of bloody Christian-Muslim sectarian strife in Maluku at least 9,000 people have been killed and half a million displaced from their homes. Since January 1999 six police chiefs and three military commanders have cycled through Maluku. The violence spilled over to North Maluku and Poso in South Central Sulawesi. The conflict has been intensified by the presence of thousands of members of the *Laskar Jihad* (Holy War Army), the armed wing of Java-based Islamic extremists. Rather than restoring order, elements of the TNI have logistically facilitated the *Laskar Jihad*.

The problem seemed remote to the Jakarta elite until foreign governmental and NGO pressure was applied. Indicative of Jakarta's impotence when faced with local civil wars has been its adoption in Maluku of a stance of diplomatic intermediation seeking to broker peace between the warring parties rather than impose law and order. The governance problem is that keeping the peace is not dependent on the state's authority but on the good will of the adversaries. In February 2002, an eleven-point agreement was reached designed to end the current strife. A key item called for the disarming and banning of militia groups. The *Laskar Jihad* refused to be a part of the accord. Within weeks its units were in action again attacking Christian communities.

#### *Decentralization or Disintegration?*

Even before the fall of Suharto's government there had been calls for greater autonomy and self-government at the local level. The demand in particular was for a fairer division of taxes and revenue from natural resource exploitation and industrialization. The post-Suharto administrative response was Laws 22 and 25 of 1999 providing a package for devolving power to nearly 400 regency (*kabupaten*) and municipal governments.<sup>22</sup> The laws, loosely and carelessly drawn, established a

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<sup>22</sup> Government administration is carried out through descending levels of administrative sub-units: provinces, regencies and cities, sub-districts, and villages. Elected legislative bodies function at the provincial and regency/city levels of government. Regional administrative units were not financially autonomous and functioned to implement nationally determined policy, rules, and regulations. For a brief sketch of pre-2001 local government in Indonesia see Donald E. Weatherbee, "Government and Politics," in William H. Frederick and Robert L. Worden, eds., *Indonesia: A Country Study* (Washington DC: Federal Research Division Library of Congress, 1993), pp. 225-227.

framework for administrative autonomy and revenue sharing but still, from Jakarta's viewpoint, within the integral body of the unitary state.<sup>23</sup> The details were left for future specification. The necessary groundwork, including implementing regulations, was not laid out.

The laws went into effect on January 1, 2001. The local authorities and legislatures took the ball and ran with it, expanding their ambiguously permitted areas of activity and in fact competing with the central government in raising revenue through taxation, licensing, and natural-resource exploitation. Rather than a uniform national regulative and administrative regime, a kind of legal limbo has emerged. A welter of contradictory regulations and locally imposed levies, what might be called "creative taxes," is replacing the vacuum of national administration. The minister of Home Affairs, already by the end of August 2001, could cite 3,000 contradictory regulations at the local level, complaining that many regencies considered themselves sovereign.<sup>24</sup> The problems of autonomy involve more than just administrative confusion, duplication, and incompetence. A whole new set of quasi-independent bribe-demanders has emerged. The rush to squeeze out as much revenue as possible has added a new layer of resource exploitation to an already stressed environment. This is happening as poor central government oversight of environmental security is further weakened by the dissolution by Megawati's executive order of the Environmental Impact Control Agency (BAPEDAL). Local autonomy in areas of ethnic or sectarian tensions can mean fewer checks on impulses towards ethno-religious cleansing particularly in bureaucracies. Finally, it has already been shown in some regencies that militant Islamists can force the adoption of "purificatory" rules rejected at the national level.

Recognizing that Jakarta has lost control over the autonomy process, the Megawati government is trying to put the genie of decentralization back in its unitary state bottle. Even while vice-president, she strongly criticized the autonomy laws as being contrary to the 1945 Constitution, breaking the hierarchical relationship between Jakarta, the provinces, and the regencies some of which she declared were in "rebellion" against provincial authority.<sup>25</sup> Even at the provincial level, elected legislatures are challenging the authority of governors who are agents of the central government. The perceived threat from Megawati's vantage is emergent *de facto* federalism, a concept as anathema to her as it was to her father, Indonesia's first president. Coming into office, her government began a campaign to reassert supremacy and enhance control and coordination over the regencies. Critics view this as Jakarta's reluctance to really share power. Part of that reluctance probably is also connected to the desire of political and bureaucratic figures in Jakarta to protect

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<sup>23</sup> One of the major criticisms of the autonomy laws is that they bypass provincial governments. It was argued that the regencies did not have the infrastructure or human resources to effectively carry out their new responsibilities. On the other hand, it was feared that autonomy at the provincial level might lead to new separatist demands. Regencies continue to multiply. In February 2002, parliament approved 22 new regencies in eight provinces. New provinces have been hived off as well. The count is now 32 including two new virtual provinces in Irian Jaya. There are as many as 13 prospective new provinces waiting for the right political moment.

<sup>24</sup> As cited by the *Jakarta Post*, 30 August 2001.

<sup>25</sup> See for example her speech to the provincial governors at a Ministry of Home Affairs workshop on May 16, 2001 reported in *The Jakarta Post*, 17 May 2001.

sources of private revenue in the regencies. In 2002 the government drafted amendments to Laws 22 and 25 of 1999 designed to curtail local autonomy. The Association of Regency and Municipal Councils has strongly lobbied against it. Political party factions in the parliament, looking to the 2004 general elections, have been cool towards the idea of stepping back from decentralization, which, while vexing to the government, is popular.

### *Separatism*

Many discussions of the challenges facing Indonesia begin with the issues of separatism in Aceh and Papua (Irian Jaya).<sup>26</sup> But the outcome of the internal wars at the provincial extremities of the archipelago is not the key to the future. Indonesia, the state, can exist with or without Aceh or Papua. Whether the dissidents in those provinces win or lose will not essentially change Indonesia's ugly governance. The post-Suharto governments have adopted a carrot-and-stick approach towards rebellious outlying areas, in a strategy to retain sovereignty at all costs. Jakarta's problem is that the carrot is not tasty enough and the stick is counterproductive.

Papua was officially granted "special autonomy" on January 1, 2002, but without the implementation of guidelines and a widely heralded visit by President Megawati to the province did not take place. Even the half-a-loaf "virtual" autonomy was marred by the November 2001 murder of Papuan political leader Theys Hijo Eluay. It is widely believed that his kidnapping and killing was the work of the TNI. The demographic ingredients for the kind of disaster that befell East Timor are present in Papua. The proponents of Papuan independence, with its armed wing, the OPM (Free Papua Movement), represent the indigenous Melanesian people of the western half of the island of New Guinea. They have become economically and socially marginalized in their own land by the immigration since 1962 of Indonesians who control the economy and now make up half the population. It is reported that the Laskar Jihad is already at work training immigrant Indonesian militias for "self-defense" against Papuan separatists.

A "special autonomy" law for Aceh also took effect on January 1, 2002 but again without the laws and regulations to make it operational. On January 17, 2002, in the face of a general strike in Aceh, Vice President Hamzah Haz made it clear once again that the Acehnese dream of independence was futile. This means that the quarter century of war that has already costs tens of thousand of lives will continue despite on-again, off-again negotiations and humanitarian pauses between Jakarta and the Aceh Independence Movement (GAM). On January 24, 2002, the TNI ambushed and killed the commander of GAM's armed wing together with his wife. Casualties are reported almost daily and they include civilians caught between in the middle.

If self-determination is to be denied in Aceh and Papua, a heavy TNI presence will be necessary. This raises the prospect of an indefinite continuation of the cruelty, injustices, and human rights abuses already fully documented in both provinces. While

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<sup>26</sup> For concise discussions of the general problem of separatism in Aceh and West Papua see Anthony L. Smith, "Conflict in Aceh: The Consequences of a Broken Social Contract," *Harvard Asia Quarterly*, VI:1 (Winter 2002), pp. 47-55; and David Webster, "'Already sovereign as a people,' A Foundational Moment in West Papuan Nationalism," *Pacific Affairs*, 74:4 (Winter 2001-2002), pp. 507-508.

the government goes through the motions of negotiation, the TNI is beefing up its forces. A separate military command, the Iskander Muda command, has been reconstituted for Aceh. By mid-2002 reinforced TNI troop strength there exceeded 22,000 men. This does not include the paramilitary police. The situation on the ground in Aceh has been likened to the military occupation of East Timor before independence. There is ample testimony to President Megawati's fierce commitment to Indonesia's territorial integrity. She condemned President Habibie for allowing the East Timor referendum. Her past indifference to TNI human rights abuses is shown by the foot-dragging on holding army personnel accountable for their actions in East Timor. Her possible future indifference is more chilling. In a 2001 year-end speech to the troops, she told them to do their duty and not worry about human rights abuses.<sup>27</sup>

## Conclusion

The facts of Indonesia's ugly governance cannot be disputed. The future does not look promising. Indonesia has all of the symptoms of a failing state. Unlike bad governance in Vietnam, Laos, Cambodia, and Myanmar, ugly governance in Indonesia has a region-wide impact. The fate of Indonesia will strongly affect regional security. Malaysia is struggling with thousands of illegal Indonesian immigrants. Australia is trying to cope with "boat people" whose passage is facilitated through Indonesia. Malaysia, Singapore, and the Philippines are moving from unease to alarm about Indonesia as a possible breeding ground for militant Islamist terrorists. A failed Indonesian state would leave a geopolitical hole in Southeast Asia, changing the dynamics of U.S., Chinese, and Japanese interests in the region.

What is to be done? This chapter has discussed good governance as an outcome, a dependent variable. The independent variables identified were political will and capacity. There are many prescriptive solutions offered for Indonesia: rule of law, transparency, civil service reform, judicial reform, reform of the police, reform of the TNI, etc. These also are outcomes depending on political will and capacity. The underlying question then, is what political systemic change will be necessary to strengthen political will and enhance political capacity in order to move Indonesia in the direction of good governance?

It has been argued that Indonesia's current ugly governance is part of the price of a messy transition from Suharto's authoritarianism to democracy, a process that will take time. There is little empirical evidence, however, that those in charge of "democratization" are truly normatively committed to the task. Furthermore, if Singapore is the paradigm for good governance, democracy is not necessarily a required intervening variable between political will and capacity and good governance.

One possible thin ray of hope might be found in the process of decentralization. For the first time in Indonesian history, governments, even if only local governments, will through the electoral process become accountable to their constituencies. Already in the regencies a new sense of empowerment is emerging, a fact more remarked upon by groups and NGOs interested in building civil society than by the Jakarta powerbrokers. Perhaps as Jakarta's political/administrative writ dissipates as it moves

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<sup>27</sup> As reported in *The Jakarta Post*, 28 December 2001.

away from the center in a state structured by a kind of incremental neo-federalism, ugly governance at the center will not be as threatening to the nation's future as it now seems.





## CHAPTER 15

### CIVIL SOCIETY AND DEMOCRATIZATION IN MALAYSIA

ALASDAIR BOWIE

The question of what role a growing civil society is playing in Malaysia's democratization assumes the two trends are mutually reinforcing. In fact, Malaysia's government is a political paradox: it is simultaneously democratic and authoritarian, and current trends indicate that both of these characteristics are gaining strength.<sup>1</sup> As such, developments that may be presented in one light as illustrative of the growth of civil society may be seen in another light as suggesting its weaknesses.

Malaysia's is a parliamentary system of government following the Westminster model, combining strict party discipline with the fusing of executive, judicial, legislative and internal security authority under the office of the Prime Minister. Elections are held at regular intervals (on average, once every four years) and members of the national parliament represent single-member constituencies and are elected by a majority of the valid votes cast.

Malaysia's general elections of November 1999 suggest at first glance a vibrant democracy at work. The governing Barisan Nasional (National Front) coalition, standing on its record as the very guarantor of stability and prosperity in that country for over forty years, won a renewed mandate with 77 percent of the seats in the national parliament and 57 percent of the votes cast (turnout was 71 percent of registered voters).<sup>2</sup> A spirited Barisan Alternatif (Alternative Front) opposition coalition competed most effectively in Peninsular Malaysia (where most Malaysians and most urban-dwellers live). There it received 43 percent of the votes cast, compared to the governing coalition's 53 percent, and narrowed Barisan Nasional majorities to less than five percent of the votes cast in 26 of the 103 seats won by the governing coalition.<sup>3</sup>

If we define civil society as that realm of activities and institutions that lie outside the direct control of the government, then the 1999 election campaign clearly mobilized civil society, particularly around issues such as governance, corruption and

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<sup>1</sup> Harold Crouch develops this argument in some detail. See Crouch, *Government and Society in Malaysia*, Cornell: Cornell University Press, 1996, ch 1.

<sup>2</sup> Meredith L. Weiss, "The 1999 Malaysian General Elections: Issues, Insults, and Irregularities," *Asian Survey* 40 (2000), pp. 414, 431.

<sup>3</sup> Patricia Martinez, "Malaysia in 2000: A Year of Contradictions," *Asian Survey* 41 (2001), p. 189. A similar number enjoyed margins of less than 10%.

authoritarianism, to an extent not before seen in Malaysian electoral politics.<sup>4</sup> The success of the Barisan Alternatif in particular would seem to represent clear evidence that civil society is viable and prospering in Malaysia. The opposition coalition's major constituent parties are: a primarily Malay/Muslim party (Parti Agama se-Malaysia, or PAS), a multi-ethnic but primarily Malay party (Parti Keadilan Malaysia, or Keadilan) and a multi-ethnic but Chinese-dominated party (the Democratic Action Party, or DAP). Despite their differing ethnic appeals, these parties managed to hold their coalition together during the 1999 general elections campaign and have solidified it since then during several by-election campaigns.

This is not to say that the 1999 general election results were a transparent indication of voter preferences on voting day. Numerous allegations were lodged with electoral officials concerning use by the Barisan Nasional of "phantom voters" (those voting under assumed or false identities) to increase its margins, and a relatively high proportion of voters (2.14 percent) cast spoiled ballots.<sup>5</sup> And, as is usually the case, the governing coalition's proportion of seats won exceeded, by far, the actual proportion of votes it secured nationwide, thanks to gerrymandering. In short, there are many avenues by which the government, while maintaining the formal trappings of a democracy, was able to insure that its political challengers faced an uphill battle. Nevertheless, in comparative terms, the election results did represent both democracy at work and the rise of civil society.

However, the political regime in Malaysia is at the same time moving in the direction of greater authoritarianism. An important manifestation of the latter trend is that government in Malaysia often lacks transparency, particularly in its relationship with favored parts of the business elite. This is illustrated in the selective bailouts, in the wake of the Asian economic crisis, of unproductive and debt-ridden conglomerates with close ties to government leaders.<sup>6</sup> The *2001 Index of Economic Freedom* (published jointly by the *Wall Street Journal* and the Heritage Foundation) ranked Malaysia as "mostly unfree," down from "mostly free," and dropped the country from 18th (in 1985) to 75th in its economic freedom ranking.<sup>7</sup> Similarly, Malaysia's position in Transparency International's Corruption Perceptions Index slipped from 32nd in 2000 to 36th in 2001.<sup>8</sup> An absence of checks and balances is evident in the erosion of the independence of the judiciary. The Hong Kong-based Political Economic Risk Consultancy ranked the Malaysian legal system as one of the five worst in Asia.<sup>9</sup> And revelations of judicial misconduct, such as the vacationing of then Supreme Court Chief Justice Eusoff Chin with a prominent lawyer whose cases had been tried successfully before him, have undermined public confidence in the judiciary.<sup>10</sup>

The government's claimed success at steering Malaysia through the worst of the Asian economic crisis should be seen in the context of this greater authoritarianism.

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<sup>4</sup> Martinez, "Malaysia in 2000," p. 190.

<sup>5</sup> Ibid., p. 189.

<sup>6</sup> Ibid., p. 198.

<sup>7</sup> Cited in Martinez, "Malaysia in 2000," p. 199.

<sup>8</sup> Ibid.

<sup>9</sup> Cited in Martinez, "Malaysia in 2000," p. 196.

<sup>10</sup> Martinez, "Malaysia in 2000," p. 196.



After the economy contracted by 6.7 percent in 1997—the worst contraction since the mid-1980s—it rebounded in 1999 and, by the end of 2000, had experienced five consecutive quarters of growth exceeding seven percent.<sup>11</sup> The government heralded the success of its capital controls and fixed exchange-rate policies, introduced in 1998.<sup>12</sup> But foreign direct and particularly portfolio investors, who smarted at the imposition of arbitrary controls, have expressed concerns about governance, (lack of) structural reforms, and political risks, and their actions have sustained a longer-term trend towards declining foreign investment.<sup>13</sup>

The issue of “governance” was at the forefront of the appeals of the two competing party coalitions during (and since) the 1999 elections. The Barisan Nasional has drawn attention to its effectiveness in government, citing its 42-year record of development accomplishments and delivery of material well-being, especially to Malays, and calling upon voters to respond with gratitude.<sup>14</sup> Meanwhile, the coalition’s dominant party, the United Malays National Organization (UMNO), simultaneously stimulated ethnic anxiety and pushed its development record by targeting Chinese businessmen with frightening advertisements questioning the opposition coalition’s competence to govern and warning of instability, outside influences, and economic disaster should the Barisan Alternatif win the reins of government.<sup>15</sup>

The Barisan Alternatif’s campaign on the other hand focused on governance in terms of general themes of greater transparency, justice, accountability, and less corruption. The coalition’s candidates highlighted issues such as: freedom of speech, assembly and the press; the need for an independent judiciary; and the importance of abolishing laws that allowed the state to detain people without trial.<sup>16</sup>

The 1999 election campaign brought governance—and particularly government transparency—to the fore, primarily because of splits within UMNO. In the wake of the Asian financial crisis, state rents that had been distributed to entrepreneurs closely linked to UMNO party leaders became less plentiful, and intra-party competition for them more intense. While government leaders appeared to signal greater transparency in relation to the failures of the state industrialization initiative, such as the Prime Minister’s acceptance of blame for the failure of Perwaja Steel, a centerpiece of his 1980s industrialization drive,<sup>17</sup> selective bailouts granted to unreconstructed insider firms such as Renong (which sought protection under the government’s Corporate Debt Restructuring Agency and was allowed to unload all of its liabilities to a subsidiary while leaving the parent company with a clean balance sheet) suggested that the government was continuing to favor UMNO factions behind a veil of secrecy.<sup>18</sup>

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<sup>11</sup> Ibid., p. 197.

<sup>12</sup> For details on the capital controls and exchange rate policies, see Greg Felker, “Malaysia in 1999: Mahathir’s Pyrrhic Deliverance,” *Asian Survey* 40 (2000), pp. 55-56.

<sup>13</sup> Martinez, “Malaysia in 2000,” p. 197. Meanwhile, however, IMF and foreign economists’ criticism of the Malaysian policy response has been muted. See Felker, “Malaysia in 1999,” p. 56.

<sup>14</sup> Martinez, “Malaysia in 2000,” p. 190.

<sup>15</sup> Weiss, “1999 Malaysian General Elections,” p. 422.

<sup>16</sup> Ibid., p. 423.

<sup>17</sup> Martinez, “Malaysia in 2000,” p. 199.

<sup>18</sup> Ibid.

The none-too-transparent struggles within UMNO for access to the declining trough of state rents highlight the difficulties entailed in assessing from the outside the health of civil society in Malaysia. While it is hard to talk of “the government,” “UMNO,” or “the UMNO leadership” without referring specifically to Prime Minister Mahathir Mohamad, it would be a mistake to equate Mahathir with UMNO, or indeed UMNO with the government. Mahathir’s control of a functioning UMNO party apparatus with a long history represents a major obstacle to a challenger such as Anwar Ibrahim, the former finance minister and deputy prime minister now incarcerated on corruption and sexual charges. As Anwar and earlier challengers for the party leadership in the 1980s, Tengku Razaleigh and Musa Hitam, found, control over the party apparatus gives Mahathir, as party president, formidable powers. He was able, for example, to install as his UMNO vice-president (succeeding Anwar) the loyal and mild-mannered Abdullah Ahmad Badawi, and to postpone until after the 1999 general elections the internal party elections for UMNO leadership positions.<sup>19</sup>

But the powers of the UMNO party president are not unlimited. In fact, it has been said that the real democracy in Malaysian politics is found not in general election campaigns but in the competition for party positions that precedes the party’s national assembly every three years.<sup>20</sup> In that competition, the party president does not always get his way. For example, following the declining political fortunes of the party with Malays, as revealed by the 1999 election results, Mahathir, seeking to forestall a post-election challenge to his leadership, at a special UMNO assembly in November 2000 pushed a constitutional amendment that would have further extended the term of the Supreme Council, the party’s governing body. An uproar quickly ensued among ordinary members, who perceived Mahathir’s move to be an attempt to further consolidate the power of the party leadership, and the amendment was withdrawn.<sup>21</sup>

The UMNO leadership, while controlling the federal government, thus does not necessarily control UMNO. If one defines “civil society” as those activities and institutions that lie outside the direct control of the government, then one may include intra-UMNO contestation as one manifestation of civil society. This includes the leadership struggle that led to the ouster of Anwar Ibrahim. Though it resulted in an authoritarian-style purge of Anwar and intimidation of his supporters, the very fact that a rift developed between Anwar and Mahathir can be viewed as a sign of growing civil society.

Anwar, for seven years Mahathir’s finance minister and/or deputy prime minister, sparred with Mahathir over appropriate policy responses to the Asian economic crisis. Anwar’s embrace of austerity and tight money found favor with the IMF (Anwar, however, did not advocate Malaysia’s seeking IMF assistance) but ran counter to Mahathir’s assertions that the economy was basically healthy, needing only to be insulated from the “contagion effect” of bad news from neighboring Thailand and Indonesia. Anwar won plaudits abroad when, in early January 1998, he gave a speech

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<sup>19</sup> Felker, “Malaysia in 1999,” pp. 51, 57.

<sup>20</sup> Alasdair Bowie, “Political Institutions and Divergent Responses to Crisis: Indonesia and Malaysia,” paper delivered at a conference on the Asian Fiscal Crisis, School of International Affairs, University of Washington, Seattle, WA (October 30-November 1, 1998), p. 19.

<sup>21</sup> Martinez, “Malaysia in 2000,” p. 191.

described as “concise, direct and effective” that addressed investor concerns about Malaysia’s economic growth policies.<sup>22</sup>

Mahathir’s and Anwar’s differences were of course not limited to economic policy matters. Like some of Mahathir’s deputy prime ministers who preceded him (Musa Hitam, for example), Anwar had been groomed by Mahathir as a potential successor. As Anwar’s international stature increased (his face appearing on the cover of the Asian edition of Time magazine), and he presented himself as Malaysia’s voice of reason, in stark contrast to Mahathir’s occasionally xenophobic outbursts (especially his widely reported “Jewish conspiracy” remarks), Mahathir noticed.<sup>23</sup> But Anwar’s challenge to Mahathir’s leadership of UMNO (and hence his premiership) became overt in June 1998 at the UMNO party elections, when Anwar’s allies sought the prime minister’s ouster.

Mahathir’s response was swift. He appointed a former finance minister and long-time confidant, Daim Zainuddin, as special economic czar in overall charge of economic policy, effectively demoting Anwar as finance minister. Daim subsequently reversed most of Anwar’s policies.<sup>24</sup> Then, on September 1, 1998, Mahathir imposed currency controls and other anti-free-market measures. He withdrew the ringgit from international circulation (foreign investors were required to apply for permission to change ringgit into hard currency) and announced “temporary” regulations requiring foreign portfolio investors to hold stocks for a minimum of twelve months. He then fired Anwar from the Cabinet and had him expelled from UMNO. The governor of the central bank, an Anwar ally who opposed currency controls, subsequently resigned.<sup>25</sup> The subsequent arrest, trial, conviction and imprisonment of Anwar on sexual and corruption charges were accompanied by street demonstrations of the *Reformasi* movement that rocked Kuala Lumpur periodically for the remainder of 1998 and into 2000.<sup>26</sup>

The case of Anwar is problematic for any assessment of the relative strengths of government and civil society. While Anwar was a key government and UMNO leader before his defeat at the hands of Mahathir, his arrest, trial and imprisonment provided a critical catalyst for the growth of civil society. Most directly, it led to the formation, in April 1999, of the opposition Parti Keadilan Nasional (or simply Keadilan, meaning “justice”). Led by his wife, Wan Azizah, the party championed his cause in cooperation with, established opposition parties.<sup>27</sup>

Another problematic aspect of any current assessment of government-civil society relations in Malaysia is the distinction between federal and state governments. Two of the latter are in the hands of the Muslim opposition party, PAS, whose spiritual advisor, Nik Abdul Aziz, is chief minister of Kelantan state. To the extent that civil society encompasses activities and institutions outside the control of the *federal*

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<sup>22</sup> “Indonesia Falls Prey to Hoarding, Loss of Public Confidence,” *Wall Street Journal*, 9 January 9 1998, p. A1.

<sup>23</sup> “Malaysian Premier Fires Deputy Who Pressed Free-Market Plan,” *The Washington Post*, 3 September 1998, p. A39.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Anwar was sentenced in August 2000 to nine years’ imprisonment on a charge of committing “unnatural sex acts,” to be served in addition to the six-year sentence handed down in April 1999 for corrupt practices (interfering with a police investigation). Martinez, “Malaysia in 2000,” p. 194.

<sup>27</sup> On the convictions and their aftermath, see Felker, “Malaysia in 1999,” pp. 49-52.

government, these PAS state governments represent another component of civil society. They have initiated policies to which the federal government is opposed, such as the 1993 Kelantan enactment of *budud* (canonical law) mandating the death penalty for apostasy.<sup>28</sup>

There are numerous inherent obstacles to institutionalizing civil society in Malaysia. In particular, political parties that appeal to different ethnic constituencies found it difficult to work together to choose a single candidate for each of the single-member parliamentary constituencies for the Barisan Alternatif in the last election. Since the election, there has been public squabbling over the preferred ethnicity of candidates for by-elections, and which party's turn it is to field one. This, however, has not prevented the Barisan Alternatif from gaining ground politically and, in November 2000, from wresting a state assembly seat from the governing coalition with Chinese voters supporting a Malay candidate.<sup>29</sup>

Government leaders have been anything but neutral in their responses to the rise of civil society. The success of PAS in seizing control of the state legislature in Terengganu in the 1999 elections, for example, brought a stinging rebuke from the federal government. It abrogated an agreement to share five percent of royalties from petroleum pumped in the oil and gas-rich state, and it cancelled a \$126 million remittance of these royalties scheduled for October 2000.<sup>30</sup> Anwar's success in mobilizing supporters behind Keadilan likewise brought government retribution that was visited on the heads of those supporting him. One of his lawyers, Karpal Singh, was charged in January 2000 with sedition for suggesting, in the course of arguing Anwar's case before the courts, that there was a political conspiracy afoot in Anwar's prosecution. A Keadilan vice-president was also charged with sedition, and the head of Keadilan's youth wing was charged under the Official Secrets Act for releasing government documents that exposed government corruption.<sup>31</sup>

The government has frequently resorted to using the ethnic card in its attacks on elements of civil society. Despite passing laws, adopting policies, and issuing threats and reminders that discourage discussion of matters having to do with ethnicity, ostensibly because they are too sensitive, the government repeatedly appeals to ethnicity to delegitimize its opponents.<sup>32</sup> While seeking to secure the allegiance of Malays by claiming to champion their interests, the government aired campaign advertisements in 1999 that played on the fears of the economically powerful Chinese community by questioning the opposition's competence to govern and warning of instability, outside influences, and economic disaster should the Barisan Alternatif be elected government.<sup>33</sup> Subsequently, in August 2000, government leaders denounced an umbrella group representing over 2000 Chinese organizations, the Malaysian Chinese Organizations' Election Appeals committee (or Suqiu), and subjected it to a

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<sup>28</sup> The federal government was able to prevent the putting to death of four apostates sentenced in December 1999 by pointing out that the Federal Constitution does not provide the death penalty for apostasy. Martinez, "Malaysia in 2000," p. 193.

<sup>29</sup> Martinez, "Malaysia in 2000," p. 190.

<sup>30</sup> Ibid., p. 192.

<sup>31</sup> Ibid., p. 195.

<sup>32</sup> Ibid., p. 193.

<sup>33</sup> Weiss, "1999 Malaysian General Elections," p. 422.

volley of racial epithets and racist slogans hurled by UMNO Youth for questioning the government's proposed "Vision Development Plan" that foresaw affirmative action policies for the Malay majority being sustained in perpetuity. Mahathir used his 2000 National Day speech to blacken Suqiu as an extremist group, likening it to a Muslim cult that earlier in the year had stolen arms from a military arsenal and engaged in a violent standoff with authorities. He reiterated his claims in parliament that the Siuqui, rather than making appeals related to the conduct of the 1999 elections, were making "demands" to end Malay rights and dominance, a very sensitive issue for most Malays.<sup>34</sup>

These episodes of race-card exploitation by the government, some observers have noted, tend to manifest themselves not because of heightened tensions *between* the ethnic groups that make up Malaysian society, but because of internal divisions *within* UMNO.<sup>35</sup> For example, following the November 2000 by-election loss to the Barisan Alternatif, Mahathir attributed the outcome to ungrateful and racist Chinese voters who had turned their back on the governing coalition.<sup>36</sup> Opposition party leaders who were Malay, from PAS and Keadilan, condemned the government's attack on Suqiu as being against the teachings of Islam and suggested that there were ways of configuring the nation other than the proposed "Vision Development Plan."<sup>37</sup>

Certainly there is every opportunity for government leaders to "divide and conquer" by attacking different elements of civil society for different reasons at different times. Indeed, Malaysia's civil society, as broadly defined here, is most diverse. It includes not only social and educational organizations, such as those represented by the Siuqui, but also NGOs concerned with the erosion of individual liberties, broader political movements, such as *Reformasi*, opposition political parties and coalitions, such as PAS and the Barisan Alternatif, state government institutions dominated by opposition parties (as in the states of Kelantan and Terengganu), and even those elements within the dominant party, UMNO, who reject the direction of government leaders such as Mahathir. These elements are also fluid. Twice during 2000, for example, a broad-based coalition of NGOs and individuals united to present petitions seeking the easing of curbs on peaceful assembly, an end to detention without trial, and the right to assemble and speak freely.<sup>38</sup> Likewise, in July 2000, a coalition of women's NGOs presented a memorandum to the government seeking legislation backing an existing code on sexual harassment.<sup>39</sup>

However, the ethnic schism separating civil-society groups has often limited the effectiveness of such broad-based coalitions. The best example is the difficulty that opposition parties identified with particular ethnic communities or religions have had in formulating and disseminating a multiethnic platform that is convincing to voters. While the opposition Barisan Alternatif coalition managed to hold together during the 1999 general elections campaign behind a common manifesto promising to work for

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<sup>34</sup> Martinez, "Malaysia in 2000," p. 194.

<sup>35</sup> Kua Kia Soong, "Who Is Blurring the Vision Schools Issue?" *Malaysiakini*, 10 November 2000 ([www.malaysiakini.com/archives\\_news/2000](http://www.malaysiakini.com/archives_news/2000)), cited in Martinez, "Malaysia in 2000," p. 195 n3.

<sup>36</sup> Martinez, "Malaysia in 2000," p. 194.

<sup>37</sup> *Ibid.*, p. 195.

<sup>38</sup> *Ibid.*, p. 196.

<sup>39</sup> *Ibid.*, p. 192.

clean government and social justice,<sup>40</sup> the Malay PAS and the Chinese DAP have found it difficult to deepen and to sustain their cooperation subsequently. The Malay leaders of PAS want to advocate policies that will encourage more Muslims to abandon their traditional support for UMNO. Such policies include the *keharaj*, a land tax levied specifically on non-Muslims that was announced by PAS in January 2000 for the two states it ruled.<sup>41</sup> These same policies aroused fears among the DAP's primarily Chinese supporters that they would be forced to live under a repressive Islamic state and would lose their cultural rights. Barisan Nasional campaign advertising played upon these Chinese fears, stating that "a vote for the DAP is a vote for PAS," while on the other hand telling Malays that a government that included the DAP would likely end constitutionally guaranteed Malay special rights.<sup>42</sup> In the case of the state *keharaj*, the PAS leadership withdrew the proposal in the face of strong resistance from their Barisan Alternatif partner, the DAP.<sup>43</sup>

Government actions to weaken civil-society organizations often generate a backlash that hurts support for the government. For example, the government's political vengeance against PAS for winning control of the Terengganu state government in the 1999 elections (the abrogation of its petroleum revenue-sharing agreement with the state government) created a public uproar against UMNO's appropriation of public and national resources for partisan political purposes, and generated widespread sympathy for PAS.<sup>44</sup> Similarly, the government's subsequent attempt to implicate PAS in the 1999 standoff with the Muslim cult led to public derision and scorn over the use of a serious national security crisis for narrow political gain.<sup>45</sup>

Civil society groups have managed to capitalize upon these backlashes and have shown signs of resilience and consolidation, especially in the case of the Barisan Alternatif. The opposition coalition, according to a recent review of Malaysian politics, "has not only surviv[ed] beyond the general elections but also consolidate[d] its potential as a viable political entity."<sup>46</sup> Alternative sources of views and news, such as the online newspaper *Malaysiakini* and the PAS newspaper, *Harakah*, have proven very important to circumventing the governing coalition's control of the print and broadcast media and in rallying the public's outrage at government attempts to exploit events to divide civil societies along ethnic lines.<sup>47</sup> In fact, numerous anti-government websites have appeared as alternative points of information and the mainstream pro-government dailies have become objects of derision.<sup>48</sup> Seeking to stem the tide of criticism whose dissemination they could no longer prevent, UMNO leaders have used the courts (whose politicization was showcased during the Anwar trials) in an attempt to muzzle civil society critics. For example, in 1999, UMNO set up a panel to

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<sup>40</sup> Felker, "Malaysia in 1999," pp. 52-53.

<sup>41</sup> Martinez, "Malaysia in 2000," p. 191.

<sup>42</sup> Weiss, "1999 Malaysian General Elections," p. 435.

<sup>43</sup> Martinez, "Malaysia in 2000," p. 191.

<sup>44</sup> Ibid., p. 192.

<sup>45</sup> Ibid., p. 196.

<sup>46</sup> Ibid., p. 190.

<sup>47</sup> Ibid., p. 196.

<sup>48</sup> Felker, "Malaysia in 1999," p. 50.

“monitor” opposition speeches and to file lawsuits against slanderous claims, resulting in a tide of multimillion-dollar defamation suits known as *kegilaan menyaman*, or the “suing craze.” As one observer noted: “Government figures sued oppositionists who alleged corruption, business leaders sued journalists and academics for references to cronyism, and opposition figures sued government leaders and pro-government newspapers for their insults.”<sup>49</sup>

In conclusion, Malaysia today has many characteristics of a vibrant democracy, and yet at the same time is becoming more authoritarian than one would imagine could be consistent with democracy. In the wake of the Asian economic crisis, splits within the dominant party, UMNO, have fomented expansion in the institutions and activities associated with civil society. These activities include intra-UMNO contestation, federal-state government conflicts, challenges from a competing coalition of opposition parties, fluid but extensive coalitions of NGOs, and a burgeoning alternative media. As the extent of the rents the Malaysian state is able to distribute declines (reflecting in part the declining interest of foreign investors in Malaysia) one may expect internal competition within UMNO to become still fiercer and more public. One may also expect the Barisan Alternatif to be the beneficiary of increasing public disillusionment with the UMNO (and more generally Barisan Nasional) leadership, and a desire to seek an alternative, cleaner model of government to that of “political business” as practiced under Prime Minister Mahathir since the late 1980s.<sup>50</sup>

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<sup>49</sup> Ibid., p. 51.

<sup>50</sup> On political business, see Terence Gomez, “Political Business in Malaysia: Party Factionalism, Corporate Development and Economic Crisis,” in Gomez (ed.), *Political Business in East Asia*, London: Routledge, forthcoming (2002).







## CHAPTER 16

### **GLOBALIZATION AND NATION-BUILDING IN THE PHILIPPINES: State Predicaments in Managing Society in the Midst of Diversity**

**ROMMEL C. BANLAOI**

#### **Introduction**

When the Philippines acceded to the World Trade Organization (WTO) in 1995, the country demonstrated its determination to face the challenges of globalization. Recognizing that globalization is the buzzword of the 21<sup>st</sup> century and inevitably affects the growth and governance of many nation-states, the Philippines bravely entered the WTO to prepare itself for global competitiveness and reap the benefits that globalization may bring.

Despite its great optimism on joining the WTO, the Philippines is still lagging behind its Southeast Asian neighbors in terms of economic performance. Whereas Philippine economic growth was second only to Japan's in the 1960s, the Philippines at present is viewed as one of the sick men of Asia.

This chapter argues that the difficulties encountered by the Philippines in meeting the challenges of globalization stem from the nature of the Philippine state. The Philippines entered the global economic arena with its domestic political economy unprepared. The Philippine state has failed to create the kind of fertile socioeconomic environment that would have prepared the country for global competition.

#### **The Nature of the Philippine State**

The state that developed after the declaration of Philippine independence in 1945 may be described as both a "premature" and "weak" state. It is a premature state because it was born before reaching the full term of statehood. That is, it became a state not through the development of a cohesive national consciousness, but through the actions of its former colonial masters. As a result, the state's legitimacy is contested in some regions. The Philippine state's weakness, meanwhile, stems from its lack of relative autonomy from the parochial interests of dominant Filipino social classes, powerful political families and clans, an influential landed elite, and wealthy Filipino capitalists.<sup>1</sup>

The Philippines lacks the following characteristics of a mature and strong state:

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<sup>1</sup> See Temario C. Rivera, *Landlords and Capitalists: Class, Family and State in Philippine Manufacturing* (1994).

1. The ends and purposes of government have become settled and founded on a significant ideological consensus;
2. Most social groups (ethnic, religious, linguistic, and the like) have been successfully assimilated, or have achieved protection, equality, or self-determination through autonomy, federalism, or other special devices;
3. Secessionism no longer constitutes a major goal of minorities. Territorial frontiers have become legitimized and sanctified through legal instruments;
4. Leaders are selected on the basis of a regular procedure like elections. No group, family, clan or sector can hold power permanently;
5. Military and policy organizations remain under effective civilian control;
6. The mores of governance preclude personal enrichment through various political activities.<sup>2</sup>

#### *A Premature State*

The Philippine state is a premature state because its claim to statehood is predominantly based on anti-colonial sentiment rather on the “natural” bonds formed through common historical experience, consanguinity and identification with a common language or a common religion.<sup>3</sup> The anti-colonial sentiment in the Philippines was not even anchored on a popularly accepted notion of “nationalism” but rather on a limited or narrow elite conception articulated by 19<sup>th</sup> century Filipino thinkers initially spearheaded by Jose Rizal.<sup>4</sup> Anti-colonial sentiments developed in the Philippines not as a result of a natural blossoming of “national consciousness” but as a result of overwhelming exasperation with the three centuries of oppression under the Spanish colonial administration and a half-century of resentment under American rule with a four-year colonial interruption during the Japanese occupation.<sup>5</sup>

Another characteristic of a premature state is that its legitimacy is challenged. The Philippine state is considered legitimate by virtue of international recognition and “popular” support. However, as in other premature states in the world, resistance groups such as local communists and Muslim secessionist groups are contesting the legitimacy of the Philippine state.<sup>6</sup>

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<sup>2</sup> See K. J. Holsti, “War, Peace and the State of State”, *International Political Science Review*, Vol. 16, No. 4 (1995), pp. 332-33.

<sup>3</sup> Ibid., p. 327.

<sup>4</sup> See Floro C. Quibuyen, *Rizal, American Hegemony and Philippine Nationalism: A Nation Aborted* (Quezon City: Ateneo de Manila Press, 1999). Also see Leon Ma. Guerrero, *The First Filipino: A Biography of Jose Rizal* (Quezon City: Guerrero Publishing, 1998) and John N. Shumacher, *The Making of a Nation: Essays on Nineteenth-Century Filipino Nationalism* (Quezon City: Ateneo de Manila Press, 1991).

<sup>5</sup> See Onofre D. Corpuz, *The Roots of the Filipino Nation*, Volumes 1 and 2 (Quezon City: Aklahi Foundation, Inc., 1989).

<sup>6</sup> C.B. O'Briend, “The Show of State in a Neo-Colonial Twilight: Francophone Africa,” in J. Manor (ed), *Rethinking Third World Politics* (London: Longman, 1991), p. 145.

The premature nature of the Philippine state may also be attributed to the fact that it derives its legitimacy from the actions of its erstwhile colonial master, the United States. The Philippine state is a colonial creation supported by a minority of people constituting the elite who, in turn, utilizes the apparatus of a weak state to get the needed “legitimacy” from the people through a defective electoral and party system.<sup>7</sup>

The Philippine state also is premature because the concept of a “Filipino national identity” is contested by some Filipinos, especially those from the Muslim, Cordillera, and Cebu areas. Some Filipinos identify more with their regions or ethnic origins than with the “Filipino nation.” The sense of Filipino regionalism seems to be greater than the sense of Filipino nationalism. One Filipino writer even laments:

We are a paradox even to ourselves. The cliché question of identity, for instance, bedevils many of us, not because we are unsure of ourselves but because we cannot, to our own satisfaction, define ourselves.<sup>8</sup>

Before the colonial period, a Filipino identity never existed. Pre-colonial inhabitants of the archipelago viewed themselves as *Ilocano*, *Bicolano*, *Cebuano*, *Tausug*, *Maranawan*, *Maguindanaons*, etc. The “Filipino” concept came from the Spanish name “Felipe” in honor of King Philip. During the Spanish period, the use of “Filipino” was an elitist concept with racial connotations. It was used to describe the Creoles, Spaniards born in the Philippines. The natives were called “Indios.”<sup>9</sup> As a result of intermarriage between Creoles and wealthy Indios and the emergence of Spanish and Chinese *mestizos*, the term Filipino eventually acquired a larger area of application in the 19<sup>th</sup> century.

Commemorations of the 100<sup>th</sup> anniversary of the Philippine Revolution showed that the quest for a Filipino national identity still preoccupies many writers.<sup>10</sup> The Philippines remains a political community in search of a national identity in an “imagined community.”<sup>11</sup>

#### *A Weak State*

The Philippine state is a weak state because its apparatus has constantly been under the control of a powerful family, clan or prevailing group for the primary purpose of personal aggrandizement.<sup>12</sup> The Philippine state continues to fail to insulate itself from the parochial interests of traditional families, clans and groups that have

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<sup>7</sup> Rommel C. Banlaoi and Clarita R. Carlos, *Political Parties in the Philippines: From 1900 to the Present* (Makati City: Konrad Adenauer Foundation, 1997). Also see Clarita R. Carlos and Rommel C. Banlaoi, *Elections in the Philippines: From Precolonial Period to the Present* (Makati City: Konrad Adenauer Foundation, 1997).

<sup>8</sup> F. Sionil Jose, *We Filipinos: Our Moral Malaise, Our Heroic Heritage* (Manila: Solidaridad Publishing House, 1999), p. 2.

<sup>9</sup> Renato Constantino, *The Making of a Filipino: A Story of Philippine Colonial Politics* (Quezon City: Foundation for Nationalist Studies, 1969), pp. 5-9.

<sup>10</sup> Elmer Ordonez (ed), *Nationalist Literature: A Centennial Forum* (Quezon City: University of the Philippines Press and the Philippine Writers Academy, 1995).

<sup>11</sup> Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London: Verso, 1983).

<sup>12</sup> *Ibid.*, p. 332.

dominated and benefited from Philippine politics. These forces compete with the Philippine state in exercising effective control over its diverse population.<sup>13</sup>

As a result of the weakness of the Philippine state, “preferential access to state resources and state-conferred economic opportunities have traditionally been given to political elite, friends and relatives of the regime in control of the state power.”<sup>14</sup> A weak Philippine state results in the “politics of privilege,” a rent-seeking activity causing corruption and mismanagement of the Philippine political economy.<sup>15</sup> One scholar describes this as “booty” or “crony” capitalism in which private interests are pursued using public resources and in which economic and political oligarchs abuse the apparatus of the state.<sup>16</sup>

A premature and weak Philippine state has produced weak institutions of governance; thus, it is unable to manage the ethnic, religious and socioeconomic diversities in its society. The advent of globalization not only aggravates these diversities but also makes the Philippine state and its institutions of governance even weaker for their failure to forge a national consensus necessary for nation-building and socioeconomic development.

### **Diversities and Tensions in the Philippine Society**

The Philippines is a highly diverse society. With an archipelago of more than 7,100 islands, its geographical setting has caused considerable ethnic, religious and socioeconomic fragmentation. Although some Filipino scholars argue that the waters connecting these islands unite Filipinos, in reality they serve merely as channels of transportation facilitating inter-island commerce and migration rather than transmitters of national unity and propagators of national consciousness. These waters can even be the source of inter-island conflict due to ambiguous coastal boundaries and ineffective government policies. Aggravating the situation is the mountainous Philippine terrain, which makes *intra-island* interaction similarly problematic. The Philippines’ physical geography has produced a highly diverse society, as shown by the presence of at least five major languages spoken in the country with more or less 80 distinct ethnic dialects.

#### *Ethnic Diversity*

Filipinos are products of an ethnic mix composed of Malay, Chinese and indigenous groups with Muslim, Spanish and American influences. Of the three external influences, the mark left by the Americans is regarded as the most pervasive and visible.<sup>17</sup> It is even argued that because of the great impact of American culture, it

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<sup>13</sup> The author’s use of a weak state concept is heavily influenced by Joel Migdal, *Strong Societies and Weak States* (Princeton: Princeton University Press, 1988).

<sup>14</sup> Francisco A. Magno, “Weak State, Ravage Forests: Political Constraints to Sustainable Upland Management in the Philippines,” *Philippine Political Science Journal*, Numbers 33-36 (June 1991-December 1992), pp. 81-82.

<sup>15</sup> Paul D. Hutchcroft, “The Politics of Privilege: Assessing the Impact of Rents, Corruption, and Clientelism on Philippine Development,” *Institute for Popular Democracy Occasional Paper No. 1* (February 1997).

<sup>16</sup> Paul D. Hutchcroft, *Booty Capitalism: The Politics of Banking in the Philippines* (Quezon City: Ateneo de Manila Press, 1998).

<sup>17</sup> F. Landa Jocano, *Filipino Prehistory: Rediscovering Precolonial Heritage* (Metro Manila: Punlad Research House, 2000), p. 37.

almost succeeded in replacing Filipino native cultures.<sup>18</sup> This prompted one American writer to describe Filipino culture as a “damage culture.”<sup>19</sup> Filipino scholars, of course, vehemently denounce this.<sup>20</sup>

While the Malay group may dominate this ethnic mix, the most influential group is that of Chinese descent. Ethnic-Chinese Filipinos represent around 1.2 percent of the total population, and more than half can be found in Metro Manila (primarily because the greater number of Chinese associations are in Metro Manila).<sup>21</sup> Most of the leading families controlling the Philippine economy and politics have Chinese blood, including Jose Rizal, the Philippine national hero, and former President Corazon Aquino. Her cousin, Eduardo Cojuangco, Jr., once viewed as a crony of the former president Ferdinand Marcos crony, chairs one of the biggest corporations in the Philippines—the San Miguel Corporation. Lucio Tan, identified as a crony of former president Joseph Estrada, is one of the wealthiest Filipino Chinese businessmen, having owned Philippine Airlines, Air Philippines, Asia Brewery, Tanduay Distillery, and Fortune Tobacco Company.

The ethnic diversity of the Philippines is exemplified by the distribution of Filipino indigenous ethnic communities, called the *Lumad*. These indigenous groups are generally marginalized. The total number of indigenous ethnic communities in the country has not yet been accurately reported (partly due to their relative geographical isolation which makes them inaccessible to census takers).<sup>22</sup> But there are at least 106 ethnic groups.<sup>23</sup> Most of these are found in peripheral areas of the Philippines living in abject poverty and, more often than not, victims of government developmental projects.<sup>24</sup>

### *Religious Diversity*

While the dominant religion in the Philippines is Christianity (which is split into Roman Catholicism and Protestantism with its various denominations), the rise of Islam in the Philippines is a serious security concern not only because of the surge of Islamic fundamentalism being propagated by the minority but also because of the increasing confidence of Filipino Muslims in asserting their identity as a *Bangsa Moro*, or Moro Nation. Many Muslim Filipinos refuse to call themselves Filipinos, viewing themselves more as members of the *Bangsa Moro*. But the term “Moro” itself, like

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<sup>18</sup> Ibid.

<sup>19</sup> James Fallows, “A Damaged,” *Atlantic Monthly* (November 1987), pp. 49-58.

<sup>20</sup> See Paz P. Mendez and F. Landa Jocano, *Culture and Nationhood: A Philosophy of Education for Filipinos* (Manila: Centro Escolar University Research and Development Center, 1991), pp.1-6.

<sup>21</sup> Teresita Ang See, “The Ethnic Chinese as *Filipinos*” in Leo Suryadinata (ed), *Ethnic Chinese as Southeast Asians* (Singapore and London: Institute of Southeast Asian Studies, 1997), p. 174. For additional readings on *Filipino* ethnic Chinese, see Chinben See, “The Ethnic Chinese in the Philippines” in Leo Suryadinata (ed), *The Ethnic Chinese in the ASEAN States: Bibliographical Essays* (Singapore and London: Institute of Southeast Asian Studies, 1989), pp. 203-220.

<sup>22</sup> F. Landa Jocano, *Filipino Ethnic Indigenous Communities: Patterns, Variations, and Typologies* (Metro Manila: Punlad Research House, 1998), p. 21.

<sup>23</sup> Ibid.

<sup>24</sup> See F. Landa Jocano, *Problems and Methods in the Study of Philippine Indigenous Ethnic Cultures: A Preliminary Overview* (Quezon City: University of the Philippines Asian Center, 1994).

“Filipino,” has alien roots. Spanish colonizers introduced the term in the 16<sup>th</sup> century when they confused the Muslim people of Mindanao with the “moors.”<sup>25</sup>

Were it not for the Spanish colonization of the Philippines for 333 years and introduction of the Roman Catholic religion, the country would have been a Muslim state like its Southeast Asian neighbors.<sup>26</sup> As early as the 15<sup>th</sup> century, the Islamic religion already existed in the Sulu Archipelago in the southwest Philippines. By the mid-16<sup>th</sup> century, two sultanates had been established as far north as Manila.<sup>27</sup> The Spanish arrived in the midst of this wave of Islamic proselytism.<sup>28</sup>

Filipino Muslims are more active now in the politics of the Philippine “nation-state.”<sup>29</sup> They are more vocal because of the global and regional trend of Islamic resurgence.<sup>30</sup> The increase in “democratic space” as a result of the demise of authoritarianism in the Philippines is also enabling Muslim Filipinos to articulate more boldly their causes. The revolt in Mindanao is a function of the rise of Islam in Philippine politics.<sup>31</sup>

There are three major Muslim resistance groups, not to mention the various ethnic Muslim groupings such as the *Tausugs*, *Maguindanaons* or the *Maranawans*. These resistance groups call themselves Philippine Mujahideen.<sup>32</sup>

The oldest major Muslim secessionist group is the Moro National Liberation Front (MNLF) founded by an ethnic Tausug leader, Nur Misuari. In 1974, the MNLF declared the establishment of the *Bangsa Moro* Republic.<sup>33</sup> It has also received recognition from the Organization of Islamic Conference as the “sole and legitimate representative” of the *Bangsa Moro* people. The MNLF has since concluded peace talks with the Philippine government.<sup>34</sup> But at present, the MNLF is split into three factions: the Anti-Nur Misuari MNLF faction, the Pro-Nur Misuari MNLF faction and the MNLF Integrees. The Pro-Nur Misuari faction is alleged to be the main culprit in a massacre in Sulu in 2002 that led to the arrest of Nur Misuari.

The second major group is the Moro Islamic Liberation Front (MILF), which claims to be the vanguard of the Islamic movement in Mindanao. Hashim Salamat, supported by the ethnic Maguindanaons of Mindanao, founded the MILF in 1977 when he and his supporters split from the MNLF.<sup>35</sup> The MILF also has a splinter

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<sup>25</sup> Peter Gowing, *Mosque and Moro: A Study of Muslims in the Philippines* (Manila: Federation of Christian Churches, 1964). Also see Cesar Majul, *Muslims in the Philippines* (Quezon City: University of the Philippines Press, 1973).

<sup>26</sup> John Pelan, *The Hispanization of the Philippines* (Madison: University of Wisconsin Press, 1959).

<sup>27</sup> David Wurfel, *Filipino Politics: Development and Decay* (Quezon City: Ateneo de Manila Press, 1988), p. 2.

<sup>28</sup> Ibid. Also see Peter Gowing (ed), *Understanding Islam and Muslims in the Philippines* (Quezon City: New Day Publishers, 1988).

<sup>29</sup> Patricio N. Abinales, “Mindanao in the Politics of the Philippine Nation-State: A Brief Sketch,” *Philippine Political Science Journal*, Numbers 33-36 (June 1991-December 1992), pp. 120-141.

<sup>30</sup> Mehol K. Sadain, *Global and Regional Trends in Islamic Resurgence: Their Implications on the Southern Philippines* (Pasay City: Foreign Service Institute, 1994).

<sup>31</sup> See T. J. S. George, *Revolt in Mindanao: The Rise of Islam in Philippine Politics* (New York, Melbourne, Kuala Lumpur: Oxford University Press, 1980).

<sup>32</sup> Alvaro Andaya, *Philippine Mujahideen, Mandirigma* (Manila: Published by the author, 1994).

<sup>33</sup> Cesar A. Majul, *The Contemporary Muslim Movement in the Philippines* (Berkeley: Mizan Press, 1985).

<sup>34</sup> See Abraham S. Iribani, “GRP-MNLF Peace Talks: 1992-1996” (MA Thesis: National Defense College of the Philippines, 2000).

<sup>35</sup> See Margarita Cojuangco, “The Role of the MILF in the Mindanao Problem” (MA Thesis: National Defense College of the Philippines, 1988).

group engaged in various kidnapping and extortion activities. The Philippine government was in peace talks with the MILF as of this writing.

The third group is the extremist Abu Sayyaf, believed to have links with the Al-Qaida network of Osama Bin Laden. The fundamentalist Abu Sayyaf aims to establish an Iranian-style Islamic state in the southern Philippines.<sup>36</sup> Like the MNLF, Abu Sayyaf is also factionalized. Khadafy Janjalani, brother of slain founder Abduragak Abubakar Janjalani, is heading a fundamentalist Islamic resistant movement in Basilan. The other faction is headed by Galib Andang, alias Commander Robot, who is operating in Jolo. The government has been in hot pursuit of Abu Sayyaf due to the group's criminal activities, such as kidnapping, extortion and murder, and its suspected Al-Qaida links.

#### *Socioeconomic Diversity*

Pervasive poverty is the main security problem of the Philippines.<sup>37</sup> According to the latest Annual Poverty Indicators Survey (APIS) conducted by the National Statistics Office (NSO), of the 14.37 million Philippine families in 1998, 5.75 million belonged to the lower 40 percentile on the income scale, while 8.62 million belong to the upper 60 percentile. Families in the upper 60 percentile on the income scale scored best in almost all socioeconomic indicators. But in terms of the number of families belonging to each income strata, families in the lower 40 percentile are almost as numerous as those in the upper 60 percentile.<sup>38</sup> These figures indicate that a significant number of Filipino people are living below the minimum basic needs framework, which states that:

- In order to sustain life, the family needs to be healthy, to eat the right kind of food, to drink safe water and to have good sanitation.
- To protect the family from any harm or danger, it needs to be sheltered in a peaceful and orderly environment and it should have a livelihood that can support its family members to acquire their basic needs such as food, shelter, etc.
- To be able to attain the survival and security needs of the family, its members should be educated and be functionally literate in order to participate actively in any community development and to take care of its psycho-social needs.<sup>39</sup>

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<sup>36</sup> Jukpili M. Wadi, "Philippine Political Islam and the Emerging Fundamentalist Strand," in Carmencita C. Aguilar (ed), *Cooperation and Conflict in Global Society* (Quezon City: International Federation of Social Science Organization, 1996).

<sup>37</sup> For an excellent conceptual and practical reading of Philippine poverty, see Arsenio M. Balisacan, "What Does it Take to Win the War Against Poverty in the Philippines?" in Eduardo T. Gonzales (ed), *Reconsidering the East Asian Economic Model: What's Ahead for the Philippines* (Pasig City: Development Academy of the Philippines, 1999), pp. 83-109. Also see Anna Marie A. Karaos, "Urban Governance and Poverty Alleviation in the Philippines", in Emma Porio (ed), *Urban Governance and Poverty Alleviation in Southeast Asia: Trends and Prospects* (Quezon City: Ateneo de Manila University, 1997).

<sup>38</sup> NSO Website, "Annual Poverty Indicators Survey" of the National Statistics Office.  
<http://www.census.gov.ph/data/sectordata/ap98.html>.

<sup>39</sup> Ibid.

Filipinos were severely affected by the 1997-98 Asian financial crisis. In the latest survey, about 94 percent of all Filipino families reported that they were affected by the crisis. In response to the crisis, one in every two families in the lowest 40 percent income bracket changed their eating patterns while three out of ten families increased their working hours.<sup>40</sup>

### **The Impact Of Globalization On Nation-Building**

The advent of globalization is compounding the already complicated problem of nation-building in the Philippines. One reason is that globalization has not produced the same benefits for all ethnic and interest groups in Philippine society. Combined with the lack of a strong and effective “safety net,” globalization is exacerbating poverty and thereby intensifying the country’s ethnic, religious and socioeconomic divisions. Globalization, therefore, is challenging an already premature and weak state’s ability to manage its ethnic, socioeconomic and religious diversities. This constricts the capacity of the Philippine state to develop and to build the Filipino nation and to achieve economic development.

One product of this is the persistent separatist clamor by Filipino ethnic groups, particularly Muslim groups that feel they are being neglected in the process of globalization and that they would be better off independent from the central Philippine government. Since colonial times, Filipino Muslims have searched constantly for the kind of leadership that will transform their hopes and aspirations into economic and social reality.<sup>41</sup>

Other interest groups have also expressed concern about the negative effects of globalization. In a study by the International Forum on Globalization, it was found that globalization policies have contributed “to increased poverty, increased inequality between and within nations, increased hunger, increased corporate concentration, decreased social services and decreased power of labor vis-à-vis global corporations.”<sup>42</sup>

Globalization has led to the widening of socioeconomic disparities in the Philippines as some social actors are given greater opportunities than others.<sup>43</sup> It has favored the more mobile, the more adaptable, and the globally scarce commodities and human skills, as opposed to immobile, self-contained, and globally abundant ones. Traditional Philippine agriculture, for instance, has been unable to cope with globalization and, because of the relatively high price of Philippine agricultural products, “increasingly represents a drag on manufacturing and the more dynamic and globally tradable parts of the economy.”<sup>44</sup>

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<sup>40</sup> Ibid.

<sup>41</sup> See Romulo M. Espaldon, “Towards a National Muslim Development Policy” (undated manuscript). Espaldon was a Minister of Muslim Affairs and Ambassador to Saudi Arabia and Egypt.

<sup>42</sup> Jerry Mander, Debi Baker and David Korten “Does Globalization Help the Poor?” *IFG Bulletin* (San Francisco, California: International Forum on Globalization), Volume 1, Issue 3m (2001).

<sup>43</sup> Emmanuel S. De Dios, “Between Nationalism and Globalization” in Filomena S. Sta. Ana III (ed), *The State and the Market: Essays on a Socially Oriented Philippine Economy* (Quezon City: Action for Economic Reforms, 1998), p. 28.

<sup>44</sup> Ibid.



There are countries in which globalization has had a positive effect on the economy and politics. It has been noted that “effective adaptations to globalization are well under way in a number of developing countries.”<sup>45</sup> As a result of globalization, some developing countries “have increased their share of trade in goods and services, and new technologies have created jobs and stimulated dynamic local economies.”<sup>46</sup> Globalization is also said to have facilitated the spread of democratic governments in developing countries and helped sustain “the legitimacy of those that have been created in recent years.”<sup>47</sup> As a consequence of global integration brought by the process of globalization, improvements in the real incomes of people in developing economies can be expected.<sup>48</sup>

Globalization is not the root cause of the tensions in Philippine society. Poverty causes these tensions, and poverty is the result of weak institutions of governance.<sup>49</sup> This weakness stems from the premature and weak nature of the Philippine state.

#### *Globalization and the Philippine State*

If globalization has intensified socioeconomic divisions and conflicts, this is due to the inability of the Philippine state to implement policies preparing the country for global competitiveness. The Philippines finds it hard to cope with the globalization process because its weak institutions of governance have failed to create suitable socioeconomic and political conditions that will attract more capital and technology from both domestic and foreign sources necessary for economic growth. To overcome these challenges and reap the benefits of globalization, the weak and premature Philippine state needs to be reinvented through institutional reforms aimed at strengthening its institutions of governance and creating a suitable environment for growth.

#### *Reform of the Bureaucracy*

The Philippines has a very inefficient bureaucracy, especially its revenue-generating agencies. The Philippine bureaucracy “has suffered from the limited technical skills and low moral of its personnel and has to live with recruitment rules and promotion procedures heavily tainted by patronage politics.”<sup>50</sup> Under a premature and weak state, Philippine bureaucracy is marred by rampant corruption favoring the families and friends of the bureaucrats.<sup>51</sup>

Inefficient and corrupt bureaucracy intensifies the socioeconomic, religious and ethnic tensions in the Philippines as it hampers the delivery of needed services to the

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<sup>45</sup> Merilee S. Grindle, “Ready or Not: The Developing World and Globalization,” in Joseph Nye and John Donahue (eds), *Governance in a Globalizing World* (Washington DC: Brookings Institution Press, 2000), pp. 178.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Frankel, pp.45-71.

<sup>49</sup> This assertion is contrasting the argument of James Petras, “Globalization: A Critical Analysis,” *Journal of Contemporary Asia*, Vol. 29, No. 1 (1999), pp. 3-37.

<sup>50</sup> Temario C. Rivera, “Democratic Governance and Late Industrialization” in Filomena S. Sta. Ana III (ed), *The State and the Market: Essays on a Socially Oriented Philippine Economy* (Quezon City: Action for Economic Reforms, 1998), p. 257.

<sup>51</sup> Alfred McCoy (ed), *An Anarchy of Families: State and Families in the Philippines* (Madison: University of Wisconsin-Madison Center for Southeast Asian Studies, 1993).

people. It also leaves the Philippines unprepared to cope with the challenges of globalization.

Reforming the Philippine bureaucracy is a gargantuan task requiring implementation of a merit-based recruitment system and a clear-cut career incentive scheme to attract and sustain the best and brightest into the civil service.<sup>52</sup> The World Bank suggests the following measures:

1. Limit the scope of patronage in public employment by depoliticizing the civil service and strictly regulating the use of casual and contractual workers;
2. Decompress the government pay scale to provide competitive salaries up to senior levels;
3. Strengthen performance evaluation, implement related awards and sanctions, and enhance meritocracy in appointments and promotions.<sup>53</sup>

#### *Electoral Reform*

Philippine elections are characterized by irregularities, fraud, manipulation, vote buying, intimidation and violence.<sup>54</sup> The prevalence of election fraud during the counting of ballots, the use or threat of force by political warlords to compel people to vote in their favor, and vote buying among politicians are undermining the democratic process. Although the Philippines is among the few Asian countries with a long historical experience in electoral politics, Philippine elections are nothing more than overt expressions of competing personal interests and ambitions of party leaders belonging to or allied with dominant families, clans, landlords and business groups.<sup>55</sup>

Despite the introduction of a Party-List Law to allow more room for sectoral representations in the House and to encourage small political parties to participate in local elections, marginalized sectors are still underrepresented because of patronage politics and a strong kinship system in the Philippines. Ironically, many “small parties” participating in the party-list system are “satellite” parties of traditional politicians.<sup>56</sup> Among the measures needed to reform Philippine elections are:

1. Allowing absentee voting;
2. Computerizing the election procedure and the counting of votes;
3. Implementing stiffer penalties for election offenses;
4. Regulating campaign finance;
5. Making electoral fraud a serious crime under the law.

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<sup>52</sup> Rivera (1998), p. 257.

<sup>53</sup> See World Bank, “Combating Corruption in the Philippines.”  
<http://www.worldbank.org/eapsocial/library/corruption.htm>.

<sup>54</sup> See Carlos and Banlaoi (1997). Also see Luzviminda Tangcangco, *The Anatomy of Electoral Fraud* (Manila: MJAGM, 1992) and Ma. Aurora Catillo, et. al., *Manipulated Elections* (Quezon City: University of the Philippines, 1985).

<sup>55</sup> Renato S. Velasco, “Campaign Tactics in the 1987 Legislative Elections” in Renato Velasco and Sylvano Mahiwo (ed), *The Philippine Legislature Reader* (Quezon City: Great Books Publishers, 1989), p.62.

<sup>56</sup> See Soliman M. Santos, Jr., “The Philippine Tries the Party-List System: A Progressive Approach” and David Wurfel, “The Party-List Elections: Sectoral or National? Success or Failure?” both in *Kasarinlan: A Philippine Quarterly of Third World Studies*, Vol. 13, No. 2 (Fourth Quarter, 1997).

### *Political Party Reform*

Philippine political parties are ideologically undifferentiated, except for the underground communist party. There is only one ideology guiding all electoral parties in the Philippines, the liberal ideology. As a result, Philippine political parties are highly personalistic rather than programmatic.

The most notable features of Philippine political parties are the minimal intraparty solidarity, endemic interparty switching, and party similarities in terms of programs, organizations and campaign strategies.<sup>57</sup> Filipino political party leaders are usually political patrons from wealthy families and clans. These politically undifferentiated and oligarchic parties have created a party environment characterized by “political butterflies,” or party turncoats. Despite the constitutional mandate allowing a multi-party system in the Philippines, political parties in the Philippines, in general, are either administration parties or opposition parties.

As such, Philippine political parties are weak. Their weakness mirrors that of the Philippine state, which prevents the effective management of ethnic, religious and socioeconomic tension in the country. Without a strong party system with a clear program of government, the Philippines will continue to be plagued by persistent national crises.

Since political parties are vital instruments in the articulation of the demands and desires of the people and important vehicles to mobilize the people to achieve successful economic growth and effective governance, there is a move to reform and strengthen the Philippine party system. The suggested measures include:

1. Increasing party discipline by implementing the concept of a “party whip” and penalizing “political butterflies”;
2. Requiring political parties to build a reliable mass political base;
3. Adopting measures to monitor the continuity of party organization so that a party’s life span is not dependent on the life span of its leaders;
4. Implementing measures that penalize political parties that cannot sustain their organizational set-up.

### *Socioeconomic Reform*

To bridge the gap between the rich and poor, the Philippine government has formulated a series of medium-term development plans with socioeconomic reform packages. The Philippine government even accepts the view that successful economic growth and effective governance cannot be achieved without a strategy for socioeconomic reform. However, the weakness of the Philippine state is preventing implementation of socioeconomic reform programs. Thus, implementation of socioeconomic reform programs is a function of institutional reform, which has been discussed above.

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<sup>57</sup> Banlaoi and Carlos (1997), p. 34. Also see Carl Lande, *Leaders, Factions and Parties: The Structure of Philippine Politics* (New Haven: Yale University Southeast Asian Studies Monograph Series No. 6, 1964).

**Conclusion**

The Philippine state is in the predicament of having to face globalization while at the same time undergoing the painful process of nation-building in a highly diverse society. The weakness of the Philippine state in facing these challenges is causing the pervasive poverty that results in ethnic, socioeconomic and religious tension. To overcome these challenges, there is a need to strengthen the Philippine state and its institutions of governance through bureaucratic, electoral, party, and socioeconomic reforms.



## CHAPTER 17

### CIVIL SOCIETY AND DEMOCRATIZATION IN THE PHILIPPINES

DAVID WURFEL

#### Introduction

The Philippines has the largest number of non-governmental organizations (NGOs) per capita in Asia, and is thus an appropriate case study for this topic. If civil society has contributed to democratization anywhere, it should be in the Philippines. Yet, as we shall see, that contribution has not been institutionalization and is thus sometimes transitory.

But before developing this topic further, we need to define terms. “Civil society” is here meant to include all social, cultural, religious, and non-profit economic organizations outside government but operating within the framework of law. NGOs, organized for social action, community development, livelihood improvement and other purposes, are only a segment of that wider term. The Securities and Exchange Commission in Manila estimates that there are nearly 60,000 non-stock, non-profit organizations in the Philippines—even though many such groups have never registered with any government agency. But this number includes private schools and hospitals, professional associations, and other private, non-profit institutions, none of which are usually regarded as NGOs.

This definition of NGO is further subdivided by scholars (Constantino-David) between traditional NGOs (TANGOs) which provide charitable and relief services, e.g. the Red Cross; Development, Justice and Advocacy NGOs (DJANGOs), usually groups of middle-class volunteers finding funding for their social projects, and mass-based membership organizations, or people’s organizations (POs). Very often DJANGO projects serve the purposes of POs, and thus they cooperate, but the relationship is not always harmonious. It is DJANGOs, still numbering in the tens of thousands, registered and unregistered, which are popularly perceived as and referred to as “NGOs,” a usage we will follow.

NGOs gained national importance in the latter part of the martial law regime, fulfilling functions that government did not. Increasingly they were the beneficiaries of foreign funding. Their struggle to maintain their independence was both helped, by negative stimulus, and hindered, by oppression, as a result of the stance of the Marcos administration. After the assumption of power by Corazon Aquino, all government restraints on NGO formation were removed and the numbers skyrocketed. This

proliferation argued for the logic of coalitions and federations, but as in other spheres of Philippine life, these coalitions were not particularly stable, waxing and waning with the vagaries of leadership changes. Still the grassroots activities of the NGOs continued to expand.

Given the manner in which Aquino came to power and the growing number of NGOs during her term, NGOs had a remarkably small impact on policy and politics in the Aquino administration. It was a time for restoring traditional electoral politics based on patron-client networks and reviving the power of politicians so chosen. It was sometimes called “elite democracy,” or even “incomplete democracy.” When General Fidel Ramos became president, even though not dependent upon them for his electoral success, NGOs began to come into their own—their advice and cooperation was increasingly sought on both policy formulation and implementation. Joseph Estrada had close ties with some NGOs before his election, and appointed the head of one of the largest to be his secretary of agrarian reform. But as president he had no time for NGO voices, listening instead to his cronies and drinking buddies. Not surprisingly, NGOs played an important role in his overthrow. NGOs that supported Gloria Macapagal-Arroyo’s rise to the presidency are already becoming disillusioned.

For most casual observers of the Philippine scene the impressive “people power” demonstrations in 1986 and 2001 that led to the overthrow of two presidents are the best evidence of the impact of civil society on politics. But since in both instances military intervention was essential for a change in leadership, the true weight of civil society influence is hard to measure. In any case, such influence was unstructured and temporary, without much carryover into the subsequent administrations. Neither Aquino nor Macapagal-Arroyo saw fit to try to institutionalize an NGO role. What may be more significant, therefore, is a careful look at how NGOs have impacted two policy areas.

Because of the importance of these fields to Philippine economic, social and political development, and because of the level of NGO work in them, we will focus on the role of NGOs in agrarian reform and environmental protection, noting the changes from the Aquino administration to the present.

### **Agrarian Reform**

There is a vast literature establishing the crucial importance of the equitable distribution of land ownership for both economic growth and democratic development. In the Philippines the very inequitable distribution of land and high levels of tenancy have had negative effects on both the economy and politics. Concentration of wealth in land has deprived industry of capital, while tenants have been more reluctant to make investments in the land they till than are owner-cultivators. The perpetuation of land-derived wealth in local communities has helped sustain the patron-client system that is such an important obstacle to genuine democratization.

Though there was significant progress toward reform on rice and corn land in the first few years of martial law, the Marcos approach certainly did not encourage the involvement of genuine NGOs. While the reform was in part a response to armed

creatures of that Department: government-organized NGOs, or GONGOs. Some farmers' organizations, however, were external critics of the DAR.

After the overthrow of Marcos expectations of reform under Aquino were high. She had made commitments during the election campaign, and had appointed some NGO leaders to positions of responsibility in her government. But she was a member of the top level of the landed elite, a status with a profound impact on her actions. She appointed five different people as secretary of Agrarian Reform, but most she did not support in the Commission on Appointments, so their terms were brief. The briefest, Florencio Abad, was the only one to invite cooperation with NGOs. The others either worked with GONGOs or faced hostile criticism from farmers' organizations, both from social democrats and from those who were part of the Communist "united front." In fact, an armed police/military response called the "Mendiola Massacre," in which 13 people were killed, was triggered by the National Democratic Front (NDF)-connected Kilusang Magbubukid ng Pilipinas (KMP), which organized a demonstration in front of Malacanang in January 1987. This moved the Aquino administration from inaction to minimal activity toward reform.<sup>1</sup>

Farmers of all political stripes united for a while in the CPAR, the Congress for a People's Agrarian Reform, to try to push the legislature into enacting a peasant-friendly reform law. Though this was the widest coalition of farmers' organizations and related NGOs ever assembled, it failed. CPAR then rejected as entirely inadequate the Comprehensive Agrarian Reform Law (CARL) that Congress produced and went into opposition to the DAR. But it could not sustain unity across the wide ideological divide found within its own structures, and soon fragmented. In the rest of the Aquino administration the DAR worked only with a few cooperative NGOs, some of its own creation.

In 1992 Ramos appointed as secretary of the DAR, Ernesto Garilao, a man with extensive experience with Philippine Business for Social Progress (PBSP), a business-supported NGO that had done some good work in community development. He was also an honest and effective administrator. Garilao quickly invited the cooperation of those NGOs and farmers organizations willing to work with DAR to improve implementation of agrarian reform, which excluded those with NDF connections, and became especially close to the social democratic—meaning Church-supported—NGOs. As these NGOs became more involved in delivering services, funded by the DAR, to agrarian reform beneficiaries, and at the same time trying to critically monitor the DAR's policy implementation, they sometimes found these two roles inconsistent. But on the whole Garilao's strategy to mobilize NGO support, at the same time he welcomed their criticism, proved beneficial for the progress of reform.<sup>2</sup>

Joseph Estrada had gathered a very mixed bag of supporters during his presidential campaign, one of whom was Horacio "Boy" Morales, head of the largest rural development NGO, PRRM. (He had also been first head of the NDF in the

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<sup>1</sup> David Wurfel, "Philippine Agrarian Reform: from Marcos to Aquino," *Pilipinas* (Summer 1989); Jeffrey Riedinger, *Agrarian Reform in the Philippines: Democratic Transitions and Redistributive Reform*. Stanford: Stanford University Press, 1995.

<sup>2</sup> Saturnino M. Borras, Jr., "The Philippine Agrarian Reform...", in Horacio R. Morales, et al, eds., *Power in the Village: Agrarian Reform, Rural Politics, Institutional Change and Globalization*. Quezon City: University of the Philippines Press, 2001.

1980s.) After Estrada's victory, Morales' appointment as secretary of Agrarian Reform was widely hailed. But Estrada gave Morales almost no support. In fact, he soon restricted DAR's options by declaring his close friend, "Danding" Cojuangco—who had also been Marcos' most powerful crony—as the "godfather of land reform." Cojuangco, a large landlord in Negros Occidental, and elsewhere, actually resisted DAR acquisition and distribution of his properties and thereby toughened the resistance of other landowners to the DAR's legally mandated "compulsory acquisition." Estrada had effectively "blessed" that resistance. Morales, whose hands had been tied by the President—to whom he nevertheless remained entirely loyal—sought the cooperation of some NGOs, but most of those that had worked with Garilao felt alienated. So Morales' accomplishments in only two and a half years in office were modest.

Gloria Macapagal-Arroyo, who had courted NGOs in the last two months before she succeeded to the presidency, rewarded two champions of agrarian reform with appointments as secretary of agriculture and secretary of social welfare respectively. But she appointed a former congressman, with a taint of corruption in his past, as secretary of agrarian reform. By the style, as well as substance, of his actions he quickly succeeded in alienating farmers' organizations and NGOs of all stripes. Neither he nor the President defended his budget in Congress, so funds for implementation of agrarian reform were entirely inadequate. Even agrarian NGOs failed to make a significant intervention in the budgetary process. So the level of NGO influence on agrarian reform today is as low as it has been in nearly two decades. Meanwhile conditions for tenants, small farmers, and agricultural workers have hardly improved, giving organizers of revolutionary causes fertile ground in which to work; and they are again having some success.

### **The Environment**

The role of NGOs in shaping and facilitating environmental policy has sometimes been as great as in the case of agrarian reform, but only in certain cases or on certain issues. Illegal logging—which caused a flood in Leyte in 1991 that killed at least 4,000 people<sup>3</sup>—and environmental damage by irresponsible mining companies were the two main problems. Again, Aquino did not make an impressive start. She first appointed Ernesto Maceda as secretary of the Department of Environment and Natural Resources (DENR), but he himself turned out to be an illegal logger. Fortunately, he resigned to run for the Senate.

Already in the 1980s environmental NGOs were multiplying, both at the national and local levels. Haribon emerged as the leading organization, critiquing national policy and coordinating local actions. But the DENR was as often an enemy as an ally. Evidence against an illegal logger would be gathered and presented to the DENR, but often it would take no legal action, perhaps because one of its own staff was involved. And even if the underpaid DENR lawyers did file cases, they might find that the local judge had been bought by the loggers. Sometimes local NGOs, perhaps

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<sup>3</sup> Marites Dangulan Vitug, *The Politics of Logging: Power from the Forest*. Makati: Philippine Center for Investigative Journalism, 1993.



with the support of a mayor, would become so frustrated with inaction from Manila that they would set up roadblocks to prevent illegal loggers from bringing their trucks to the sawmill. There were a few cases of remarkable persistence by citizens in non-violent action. But the logger often had his own armed guards or goons to scare away the protesters. In extreme cases, citizens who were hurt by illegal logging and threatened by logging goons, would call in the communist revolutionaries of the New People's Army for protection. (Sometimes, however, the NPA would find illegal loggers useful, forcing them to pay "revolutionary taxes.") Enforcing legal restrictions on logging in remote areas was not an easy task even with an aroused citizenry.

Environmental NGOs were pleased to learn that Pres. Ramos would appoint an environmental scientist as head of DENR. But as an administrator he was quite disappointing. When brought information about wrongdoing in his department he might order an investigation, but would then cover up the critical findings, and even protect the violator. Already by 1981, when Marcos cronies were still cutting logs as fast as they could, timber production was half what it had been a decade earlier. By the mid-1990s the Philippines had become a net importer of forest products. So corruption spread from illegal logging to reforestation projects, though it was reduced when local POs were brought into the implementation process.<sup>4</sup>

Not until the appointment of Secretary Ramos (no relation to the president) in 1995 did the DENR more consistently enforce the law. But, events conspired to make mining, rather than logging, the most urgent problem. The Mining Act of 1995 facilitated explorations that seriously encroached on indigenous land rights, and even triggered violent clashes. Both national and international NGOs came to the assistance of indigenous peoples, who were usually poorly prepared to deal with difficult legal and technical problems. The Catholic Bishop's Conference of the Philippines, advised by environmental NGOs, even passed a resolution calling for the repeal of the Mining Act.

But the mining issue that demanded the most attention from Secretary Ramos was waste disposal, especially on the island of Marinduque. Marcopper Mining Company was one of those many properties in which Marcos had had an interest. So it is not surprising that Marcopper was engaged in illegal dumping of tailings in Calancan Bay for years during the 1970s. Fishing was severely impaired and the health of residents put at risk by the presence of heavy metals. In 1981 the newly created Diocese of Boac began to organize Basic Christian Communities around the island, many of which began to protest environmental damage from the mine. A small environmental NGO in Manila, led by Sister Aida Velasquez, began to assist such protests at the national level.

Within a few months after Aquino took power, as a result of local, national and international NGO protests, an order was issued in Manila to halt dumping of tailings in Calancan Bay. But the dumping actually continued. In 1988, the Canadian-managed mining company appealed to Aquino to lift the ban, which she did. It was not until

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<sup>4</sup> Yoshiki Seki, "The Political Ecology of the Philippines Reforestation Program..." *Philippine Political Science Journal*, 22:45 (2001), 79-96.

1991 that the dumping actually stopped. Tailings then began to be transferred to the Tapan Pit.<sup>5</sup>

In 1996 the Tapan Pit itself ruptured, flooding the Boac River valley with tailings. Thousands were left homeless. Heavy metals contaminated water sources. Fortunately, the event got extensive press coverage. NGO and Church pressure on the president and the DENR led to the cancellation of Marcopper's mining permit and criminal charges against management for violation of various laws and administrative orders. Marcopper promised rehabilitation of the Boac valley and compensation for damages, but such action moved at a snail's pace. Meanwhile the company tried, largely unsuccessfully, to court NGOs and to buy off village officials in order to get approval to reopen the mine. But the DENR, monitored by NGOs, applied strict standards for environmental approval. The mine was still closed when Estrada took office in 1998.

Estrada's appointment of a former congressman and an illegal miner from Mindanao to head the DENR was a new test of NGO influence. Secretary Antonio Cerilles was subject to one of the most extensive hearings ever by the Commission on Appointments, with many opposing the appointment. The chair of the commission was favorably impressed with the objections raised. But ultimately Cerilles was backed by the president and by the Mindanao bloc in Congress and his appointment was confirmed. He proceeded to behave in office much as the NGOs had feared. In fact, on his last day, just before Estrada was forced out in January 2001, Cerilles issued numerous "environmental compliance certificates" to mines that could not have passed a proper screening.

President Macapagal-Arroyo appointed another ex-congressman as secretary, but one with some acquaintance with the environmental movement. Heherson Alvarez has actually courted NGO cooperation, hoping to avoid opposition in the Commission on Appointments. But he is not personally popular in the Congress, and had not secured confirmation as of this writing. In the meantime he has made some environmentally sound decisions, and others that are questionable. Marcopper Mining has not resumed operation; the Church and its NGOs in Marinduque are still vigilant. But it is hard to assess the present state of environmental activism nationally. If world mineral prices should rise, mining companies are likely to regroup and expand their influence.

### **NGO Representation in Electoral Politics**

Even though DJANGOs and their cooperating POs constitute a remarkable mass movement in the Philippines, which has been recognized ever since the Aquino administration by a few top level presidential appointments, this movement has had, until recently, no mechanism for direct representation in the electoral process. In fact, it has been a cardinal principle of the NGOs to adhere to a non-partisan stance. It was feared that electoral involvement would endanger their freedom of activity or at

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<sup>5</sup> David Wurfel, "Environmental Policy in the Philippines: The Marcopper/Placer Dome Case," paper delivered at Canadian Asian Studies Association meeting, Ottawa, Canada, June 1999.

least jeopardize the minimal cooperation with government at all levels that is essential for carrying out their projects.

When NGOs strayed from this policy and “backed the wrong horse,” as they frequently did, the negative consequences were indeed evident. It was also discouraging to note that when a particular NGO did back a (usually local) candidate, either openly or quietly, the choice of candidate was sometimes based on kinship, friendship, or accumulation of *utang na loob*—elements of the traditional patron-client system—rather than on the candidate’s public record. Nevertheless, there were a number of committed reformers, with personal integrity, who achieved municipal, or even provincial, office in the late 1980s and 1990s with NGO backing. Some of these served with distinction in their respective positions. Others, however, were tempted to plan for a political career and began to make alliances with traditional parties and politicians, abandoning much of their reformist platform in the process.

There was elation in NGO circles in 1991 when the enactment of the Local Government Code included provisions for NGO membership in local “development councils.”<sup>6</sup> Even though the councils’ role was mainly advisory, they did, in the more progressive communities, give NGOs a voice in policy making. More often than not, however, NGOs learned that to be members of such councils was to be under the thumb of the mayor or governor.

Gradually the best minds in the NGO movement began to recognize that they must have their own political parties, dedicated to human rights, social justice and human development, in order to have an adequate voice at the national level. Fortunately, a little-known provision in the 1987 Constitution could give them some prospect of success. It mandated the election of 20 percent of the House of Representatives by proportional representation and required implementing legislation before the 1998 election. (Until that point the president had been authorized to appoint members representing “marginalized sectors,” perpetuating the fascist corporatism of the Marcos era.) The Party List Act was passed in 1995.<sup>7</sup>

There were a few parties formed with the support of NGO activists—usually not acting under their organizational names—to take advantage of this new process, most notably AKBAYAN!, led by moderate socialists. Still, other NGOs remained aloof from the electoral process. But despite a very sophisticated national organization with high-caliber leadership at the local as well as national level, AKBAYAN! elected only one member to the House—more, to be sure, than would have been possible in a single-member district election. The woman elected has since been recognized nationally as one of the most principled and effective representatives, and was re-elected in 2001. But the 1998 party-list election generally was a near disaster. Only 14 of the 52 seats were actually filled because of endless disputes over interpretation of law, exacerbated by a Commission on Elections which, for the most part, did not understand its meaning and, in any case, was riven by other disputes. That factional struggle is today worse than ever, sustained by the audacious and often illegal actions of an Estrada appointee. Only five seats have been filled so far from the 2001

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<sup>6</sup> Jorge V. Tigno, “People Empowerment: Looking into NGOs, POs, and Selected Sectoral Organizations,” in Felipe Miranda, ed., *Democratization: Philippine Perspectives*. Quezon City: University of the Philippines Press, 1997.

<sup>7</sup> David Wurfel, “The Party List Election: Sectoral or National? Success or Failure?” *Kasarinlan*, 13:4 (1997), 19-30.

election, even though those voting for party-list candidates increased by more than 50 percent over 1998.<sup>8</sup> The method of screening party-list parties and the procedure for allocating seats has been changed again by the Supreme Court, but is still, quite rightly, under dispute. This denouement is the result, in part, of some old politicians trying to muddy the waters, to prevent the new mechanism from succeeding. The law is internally contradictory and quite confusing; even the Supreme Court has not adequately understood it. The COMELEC, despite the presence of a few excellent members, is more immersed in corruption and infighting than at any time in its history. So the future of all elections, not just party-list, is in jeopardy. There are recommendations for revision of the law before Congress, but there is not even consensus among NGOs about what changes should be made, let alone among members of Congress.

Divisions within the NGO community are exacerbated by the law's provision of a three-member cap for all parties, no matter how many votes are garnered. Thus incentives for wide, stable coalitions among NGOs and their political party manifestations are nil. Yet progressive groups are so afraid of traditional politicians swamping the party-list elections that they defend this cap. What does not seem to be understood is that over time—though not in the next election—the party-list system will probably change the character of all parties participating in that system. To elect 52 members in nationwide constituencies is not easily susceptible to manipulation by traditional political patrons, but encourages parties with distinct policies or interests. If disputes among members of Congress, Supreme Court justices and the commissioners of COMELEC can be resolved in light of the experience of other countries, there is still hope that NGOs and POs will be better represented in the legislature. But the outcome is in doubt.

## Conclusion

For a nation that made the “transition to democracy” in 1986 and completed two undisputed presidential elections after that, democratic “consolidation” should have been accomplished. (In fact, “consolidation” is sometimes defined as the ability to hold two free, contested elections after the transition, in one of which the government candidate does not win. The election of Estrada would fit that qualification.) But consolidation does not now feel complete, despite the contributions of a very large and active NGO community. For those contributions have not been enshrined in stable institutions, e.g. political parties. In fact, sometimes NGO activities themselves are infected by the pervasive patron-client system, which they are ostensibly dedicated to subvert. Even when a new institutional process that would benefit NGOs (such as the party-list elections) appears on the horizon, it is distorted by a Congress dominated by traditional politicians. Democratization, still incomplete, is not an irreversible process.

Furthermore, the rumors of coups during the Macapagal-Arroyo administration feel more like 1989 than the 1990s. The crucial, even if ultimately responsible, role of

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<sup>8</sup> Ronaldo Llamas, “The 2001 Party-List Elections: Lessons, Questions and Contradictions,” *Diyaryo Akbayan!*, (November 2001), 4-7.

the military in the toppling of president Estrada in January 2002 has contributed to the concern that the military might intervene again—and not so quietly. We now know that the appearance of armed forces unity in 2002 projected by then Chief of Staff General Reyes was a very thin façade. The Air Force Commander, General Defensor, wanted to set up a junta, but was outmaneuvered by Reyes. This recent revelation by the respected journalist, Amando Doronila, adds to the level of concern about political stability.

In the aftermath of September 11<sup>th</sup> and subsequent American policy interventions in the Philippines there are further threats to peace and stability. President Macapagal-Arroyo began her administration with some dramatic moves toward peaceful settlement of the two ongoing rebellions, one by the NPA and the other by the Muslim separatist MILF, resuming talks with both groups, that had been broken off by Estrada. In fact, by traveling to Malaysia to meet MILF emissaries she dramatized her personal commitment to peace in Mindanao, even though she was well aware of the trouble being caused by Abu Sayyaf.

Now the U.S. “war on terrorism” has had a profound impact on the national political scene. A return to a primarily military approach to the problems of Mindanao, welcomed by some leaders in the Philippine military, now helps justify increased levels of military assistance to the Philippines. Armed incidents with the MILF have increased and at one point ongoing peace talks seemed in jeopardy. Whereas the MILF and Abu Sayyaf were clearly distinguished several months ago, the danger of their mutual entanglement, or the image thereof, is now on the rise. Negotiations with the NPA have effectively broken down, while NPA gunners have apparently engaged U.S. military planes.

Not only political stability at the center but peace in the countryside seems increasingly at risk. Even a vigorous NGO movement, already facing other limitations, cannot provide much counterweight to such developments. Democratization cannot prosper in the midst of increasing militarization. And the United States has some responsibility in these matters.





## CHAPTER 18

### THE ISSUE OF CIVIL SOCIETY IN CHINA AND ITS COMPLEXITY

YIN-HONG SHI

#### Introduction

In recent years, “civil society” has been one of the most often used concepts among academics in examining the sociopolitical transformation experienced by Eastern European countries and the former Soviet Union since the late 1980s, and in assessing similar changes in many non-Western developing countries. Obviously, the concept of civil society is in opposition to the autocratic state, its intense control over and arbitrary interference in society, and its superior standing high above the masses. Civil society, rather, is expressed in the independence and autonomy of society, the diversification of its inner components, the “secular” and non-ideological character of its values, and its liberal or “civilized” nature. Within the framework of an autocratic state, the tendency of a national population to move toward civil society and the various causes of this move have been regarded quite justifiably as deeply rooted driving forces for progressive sociopolitical change, as well as their primary manifestation. Together with diversification and liberalization within the state machinery, these social forces erode, pound at, destroy, or transform the framework of autocratic polity itself, while bestowing new dynamics, competence and relevance on the changed or changing polity and its administrative operations. This creates a far more reasonable, efficient, and perhaps even harmonious relationship between the state and society. Of course, the opposite can occur, i.e., the growth of civil society might be so unsound and immature that the existing state machinery, which has serious faults but still can perform the minimum functions of a state, suddenly collapses without any other functional state machinery to take its place. What ensues is a so-called “failed state” situation similar to the Hobbesian “state of nature,” in which law and order crumble, ethics and morality fall to dust, and violence rules the day, leaving the people with a life that is “solitary, poor, nasty, brutish, and short.”<sup>1</sup> In some countries of the post-Cold War world, that is indeed the shocking reality.

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<sup>1</sup> Thomas Hobbes, *Leviathan*. The Library of Liberal Arts edition, Indianapolis and New York: The Bobbs-Merrill Company, Inc., 1958, p. 107.

Before looking at the issue of civil society in present-day China, one should first consider the following six general and fundamental characteristics of a typical developed civil society.

1. It exists largely independent of state power; its “basic units,” of various sizes and functions and at various social levels (in Edmund Burke’s words, “platoons and associations”) are autonomous in relation to the state.
2. It is either largely free from the state interference aimed at imposing control and dominance (though not necessarily immune to state influence or regulations) or able to effectively resist such interference.
3. It has a clear self-consciousness as an independent and autonomous being characterized by self-reliance, and pride or dignity.
4. A strong and relatively independent middle class serves as a fundamental economic force. The existence of such a class depends in turn upon whether the economy of the society is relatively free, and whether the direction of investment, the distribution of wealth, and the income structure are determined generally or primarily by the operation of the market, rather than by the state.
5. In cases where the state is greatly detached from society, the latter alienates itself from the ideology, belief system, and “official discourse” of the state. “State incapacitation” in the shaping of the spirit and ideas of society will result.
6. It is largely liberal, enlightened, rational, and “civilized,” in the mores, social style, and general patterns of behavior of most of its members. In other words, a developed civil society is necessarily a “civilized” society. (In regards to the earlier reference to “the failed state” and the analogy with the Hobbesian “state of nature,” perhaps the “civilized” nature of civil society pointed out here bears some analogy to the Lockean “state of nature,” with Natural Law [common morality] as its essential and largely effective norm.

The above six characteristics can be summarized as: independence and autonomy; immunity from excessive state interference; self-consciousness and insubordinate values; the presence of a strong and economically powerful middle class; alienation from the state’s belief system or ideology; and rationality and “civility.” A society that combines these fundamental characteristics is a developed civil society.

Measured against the above characteristics, present-day China is not yet a civil society, but at the same time it has shown an increasing inclination towards the germination of a civil society. This is the first of two dualities of today’s China. Her second duality is more complicated and self-contradictory and is defined especially in terms of the last of the above six characteristics. That is, China’s embryonic civil society simultaneously has both “civilized” and “uncivilized” natures, and this is the most prominent characteristic of Chinese society as it stands now.



### **The First Duality of Civil Society in China**

Due to the economic reforms launched by Deng Xiaoping and the partial changes of the pattern of state political conduct that accompanied that reform, China has not been a “totalitarian” state for more than 20 years, and the magnitude, intensity, and extent of the state power exercised (both in reality and in theory based on official ideology) over society and its various “basic units” cannot be in any way compared with those in the Mao Zedong era. However, the exertion of that power is still so widespread and penetrating that it cannot yet be suggested that Chinese society has become largely independent of state power and that its various basic units enjoy largely undoubted autonomy. Though there are numerous examples of such autonomy, especially at the level of grassroots social units and in rural and remote inland areas, social independence and autonomy are far from the norm. As recently as a few years ago, a department of the central government dictated that a branch of the Chinese Communist Party (CCP) should be established within any academic peer group (such as scholarly societies and research associations) to provide political leadership and supervision. Permission for the formation of any new such group has become extremely difficult to obtain since then, unless organizers are inspired or supported by high governmental authorities, or they go through the “back door” of personal connections with high-ranking officials. Immunity from state interference remains weak, especially against the state’s strict control over dissemination of news (and, therefore, over the rights of society and individual citizens to know public facts) including political publications, mass media, and the use of Internet sites. In short, state censorship has not met any widespread, serious and active resistance.

Since there is no independent and autonomous civil society in China, the aforementioned self-consciousness is also lacking. In today’s China, “the primacy of the state” remains a somewhat celebrated notion. One of the most frequently expressed complaints by ordinary people about the political system, administrative rules or regulations, and the conventions of the political culture is the idea of *guan benwei*—sometimes translated as “officials rule the roost”—which emphasizes the supremacy of officialdom. Compared to the situation 15 to 20 years ago, however, some important social values, such as the rights to individual wealth, liberty, and independent thought have gained strength, and the sense of independence, self-reliance, and pride on the part of social units and individuals has grown.

The existence of an economically unconstrained middle class is now a fact as a result of the economic reforms two decades ago. Private individual wealth that cannot be controlled by the state with political or administrative methods has grown dramatically. Free markets have increasingly played a primary role in economic regulation, and in this environment a middle class based on a vast amount of small- and medium-size private enterprises is rapidly emerging. However, this middle class has not yet developed into a largely independent entity, lacking a clear sense of collective identity and its own distinct class culture. In many cases, having special connections with officialdom is a necessity for business success. Bribery of officials can guarantee that kind of profits that would have been unimaginable otherwise, while many private enterprises have to bear illegal levies and extortion by various local

governmental institutions and official personnel. There is a grave problem of moral degeneration or a “moral vacuum” in many aspects of life in present-day China. (These problems are considered so serious that the Chinese government has added the word “civilized” to its slogan of long-term national objectives—“a rich, strong, and democratic [socialist] China”—and prompted former president Jiang Zemin to advocate “rule by morality” as well as “rule by law.” In light of all this, one can hardly apply the word “civilized” to present Chinese society without serious reservation.

A key factor in the absence of civil society in China is found in the attitudes and behavior of state officials. In China, certain ideological beliefs, cultural traditions, and political self-interests prevent the state from trusting, accepting or even tolerating a civil society. The existence of a relatively independent and strong middle class and its resistance to state interference have made the state recognize that imposing “totalitarian” rule is not only impossible, but that it also perpetuates poverty and backwardness by isolating the regime, both internally and externally, and could sow the seeds of the regime’s own destruction. On the other hand, the stubborn traditions of Chinese society, the relatively low-quality civil education, the existing sociopolitical institutional structure, and the dominance of the conservative over reformatory forces both within the society and the state serve to maintain the state’s capability to check, whether consciously or unconsciously, the growth of civil society.

However, an embryonic civil society has already rendered the state machinery non-totalitarian. If compared with the typical totalitarian condition (that is, “nothing without state, nothing outside state, nothing against state,” or put simply, the condition of “Leviathan”), it is rather liberal. Looking at the social grassroots and the countryside and remote inland areas, as well taking into account the increasing diversification and relative autonomy of social components, ways of life, ways of thinking and political opinions among the upper social strata and in coastal cities, China today does not qualify as a “typical autocratic state.” Although civil society is immature, some important elements or components of civil society exist. Some basic social values still toe the official Party line, but other important values of civil society, including individual wealth, individual rights, liberty, and independent thinking, have been widely accepted. The notion that financial success depends on the self is increasingly in vogue among ordinary citizens, while many intellectual elites live entirely outside the state-owned and managed “system.” In addition to the great number of private entrepreneurs and their employees, there are many real professionals, including freelancers, doing business. The emerging Chinese middle class consists of millions of private entrepreneurs, high-income professionals, high-level employees of foreign and joint-venture companies (known as “high-ranking white collar” workers and “golden collar” workers) and successful stock-market speculators. In some cities, these people have their own exclusive residential quarters, clubs, and entertainment locations—luxuries quite unknown to most ordinary low-income Chinese.

However, the most remarkable manifestation of civil society in China is found in the alienation of society from the state’s ideology, belief system, political culture, and “official discourse.” Political indoctrination courses and their examinations have long been viewed as repugnant by undergraduate and postgraduate students, who muddle

through them with the least amount of effort. There is hardly any private subscription to the central and local Party newspapers, magazines and journals. The Chinese Communist Party's propaganda-producing departments are viewed as the least prestigious party institutions by intellectuals. Political functionaries are regarded in most places as cadres possessing no specialized or professional skills who make their living with "empty talk." In parallel with the changing attitude toward officialdom, a wide range of customs, interests, beliefs, ideas and theories—often very different from, or even opposed to, the official ideology—have their adherents.

China's embryonic civil society, or at least some important elements of a civil society, stems from five ongoing developments:

1. The economic reforms and the partial change in the pattern of state political conduct accompanying that reform, of which the most fundamental feature is the great retrenchment of the state's power over society and its interference against society.
2. The continuous rapid economic growth, together with vast improvements in material life and education.
3. The diversification and increasing complexity of society, which, according to a study by CASS (the Chinese Academy of Social Science),<sup>2</sup> has stratified into ten major levels, from state officials, the civil service, professional intellectuals, and private enterprises and down to ordinary manual workers and peasants. This replaces the previous notion of a much-simplified social division including mainly the proletariat, bourgeoisie, and petty bourgeoisie.
4. The opening to the outside world, in particular the dramatic increase in non-political exchanges with major Western nations in the fields of trade, finance, culture, education, information, travel, and migration, to such an extent that a web of interdependence is developing in some areas.
5. The gradual transformation of social values, of which the fundamental direction is the replacement of "state-standard" values with "society-standard" values, and the prioritization of individual welfare over state power.

Taken together, these developments constitute the most important forces acting on social life in China in the past two decades. The change that they have brought suggests that China, after the constant disasters of Mao's era, not only can obtain the national dynamism to become rich and strong, but also that the evolution of liberal democracy remains a long-term prospect.

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<sup>2</sup> This research report has not yet gained the final endorsement of the highest relevant institutions in the government, and therefore has not been formally published, though its main content became known through Chinese media reports.

### The Second Duality of Civil Society in China

The second duality to be elaborated here complicates the picture, and will concentrate on the last measurement of a civil society: liberty, enlightenment, rationality, and civility. China's embryonic civil society simultaneously has both "civilized" and serious "uncivilized" characteristics. On one hand, China's greatest hope lies in the comprehensive reform and opening to the outside world and the healthy growth of civil society, which could make China, one of the few vast continental states, a first-rate and constructive great power in the 21<sup>st</sup> century. On the other hand, China's greatest long-term hardship and the biggest restraint on its future is perhaps the serious moral degeneration symbolized by this "uncivilized" nature, combined with its heavy population burden and related ecological deterioration.

What constitutes the "civilized" nature of embryonic Chinese civil society? From the perspective of one who experienced life in the "totalitarian" society of Mao Zedong, the greatest change since then is the tendency to emphasize individual liberty and human values, together with the related recognition of the legitimate diversification of those values and the right of others to choose freely their own values. For example, a popular song praises young people who "act according to (one's own) feeling." Such phrases as "Realizing (the values of) one's self," "What is valuable is understanding (other people)," and "Long live understanding!" are espoused by the masses. Divorce has become easier for women to obtain and no longer carries such a heavy social stigma. Even love affairs outside marriage are widely viewed as private and individual matters and not subject to moral criticism and administrative punishment. In universities, academic freedom is becoming the standard, though political expediency sometimes leads to self-censorship. With the exception of direct criticism of China's leader or the dominant position of the Communist Party, hardly any free expressions draw administrative punishment anymore. A published written opinion that is regarded by authorities as seriously violating some basic ideological doctrine or important state policy would result in punishment, but it would be levied against the publication or its publisher, rather than the author. This stems both from the intellectual world's great opposition to punishment of free expression, and from the government's unwillingness to publicize the offending writer (and his or her views) by creating a *cause celebre*.

Moreover, in the public mind, the economy and politics have changed places on the scale of importance. The primacy of politics in the Mao era has left a bitter aftertaste in China. In contrast, people have taken to heart Deng Xiaoping's advice to "take very consistently economic construction as the center of state affairs for at least 100 years." The free-market economy has become the primary means to carry out this idea. The notion of rule by law and of democracy has gained influence. Democracy is still a sensitive term in China that makes the government wary, especially if interpreted as Western multi-party liberal democracy. However, to deny the value in liberal democracy has become infeasible. The government has emphasized an argument that has been relatively convincing to most Chinese: that steps toward democracy have to be prudent, slow and evolutionary, taking fully into consideration China's particular situation and backwardness, and never sacrificing social stability.

Society's recognition of the importance of education, knowledge, science and advanced technology has rapidly increased. A slogan that prevailed in the beginning of the reform process two decades ago was "Long live science!" That sentiment survives today in the slogan "Making China strong and prosperous through science and education." In urban areas, most families are willing to spend lavishly on their children's education, and entrance to the best senior middle schools and top universities is fiercely competitive.

State prevalence in society has been greatly reduced, perhaps to the vanishing point. A prevailing view among ordinary people today is that good governance is that which is good for the common people. Chinese intellectual elites argue that the ambiguous and often abused concept of "national interest" should be dissected into three types of national interest—the interests of the people, the interests of the state, and the interests of the regime, in descending order of importance.

However, China's embryonic civil society is also plagued by its serious "uncivilized" side. A particularly salient problem is the serious degeneration of social morality. The domestic market is flooded with faked and inferior goods that are hard to stamp out. Contaminated or even poisoned rice, wine, and meats have made their way into the open market. Customers and guests often encounter indifferent service workers. Plagiarism and fraud in academic competition are common occurrences. Obscenity in literature and some popular magazines can too frequently be found. Scandals in professional sports and the performing arts break out almost continuously. A large segment of the emerging middle class has sought to get rich quick with trade-offs between political power and money, and collusion between businesses and officialdom. This greed, corruption, and violations of the law have tainted the embryonic Chinese civil society. Violent crime is also on the rise, a result of the disruptive effects of rapid social transformation, the relatively uncivilized qualities of large segments of the population, and the profound damage inflicted on social morality during Mao Zedong's era. Steel doors, to guard against thieves and robbers, are now common in big cities. Organized crime is rampant in many areas. Underground or semi-public prostitution prevails, with more than five million people estimated to be engaged in this illegal business. Fraud is widespread, and big cases routinely are splashed across the news media. Above all, a serious erosion of the sense of trust in daily human and social relations—the vital "social capital" of trust—has become the most profound and damaging legacy of the degradation of social morality. Finally, the growth of extreme nationalist sentiment, as well as anti-reform and anti-democracy ideas in recent years has aggravated the "uncivilized" nature of Chinese civil society.

### **Conclusion: The Prospects for China's Democratization**

To grasp the essence of the issue of civil society in present-day China, one must focus on its duality: (1) China is not yet a civil society as measured by the six basic "theoretical" characteristics of a developed or typical civil society; but at the same time, it has shown an increasing inclination toward the germination of civil society, or an embryonic civil society; (2) the present embryonic civil society in China simultaneously has both "civilized" and "uncivilized" natures.

This complexity, on the one hand, directly or indirectly promotes China's democratization. On the other hand, the state's conservative attitude (shaped by its self-interest and ideology), social traditions, the low level of civility among the people, and the existing institutional structure of both state and society are in different degrees hindering and obstructing democratization. The fact that the present embryonic civil society in China is both "civilized" and "uncivilized" brings about at least two possible prospects for China's democratization: (1) a healthy and mature liberal democracy (with features of political life in advanced Western nations and some particular Chinese characteristics) comes into being in China through a gradual process of political and social development; or (2) an excessively rapid democratization creates a country with some democratic institutions but still far from being a sound and mature liberal democracy. This second scenario would probably lead to the kind of political morbidity, economic hardship, and social disorder that have plagued several underdeveloped countries during their democratic transformation in recent years. Moreover, an excessively rapid and even chaotic democratization might make China a "failed state," forfeiting the growth of civil society and the future of liberal democracy, although the chances of this are slim.

Whatever the prospects for China's democratization, it will bring major political and economic consequences to the rest of the world and East Asia, be they positive, negative, or even disastrous. The outside world can exert strong and important positive influences upon the growth of civil society and democratization in China. However, to exert such influences successfully is a complicated and arduous matter, requiring comprehensive observation, sophisticated insights, empathic understanding, and a sense of a grand strategy.



## CHAPTER 19

### CONCLUSION

YOICHIRO SATO

The chapters in this volume have attempted to advance theoretically informed discussions on growth and governance in the contemporary Asian contexts from societal, political, and economic points of view and to address possible paths for improved governance. Chapters identified important security issues originating from or exacerbated by weakness in state governing capacity; evaluated the relative impact of globalization on domestic political economies of the Asian countries; reviewed possible links between globalization and the Asian states' capacity to manage their diverse societies; and identified unique challenges of democratization by country. Now, I will attempt to tie together the globalization, economic governance, social governance, and political governance discussed in these chapters in a coherent analytical framework.

First, authors tackled the concept of good governance from economic, political, and administrative points of views. They emphasized different aspects of what might constitute good governance. Weatherbee (Chapter 14) emphasized the outcome-based measurements, such as administrative effectiveness, efficiency, equity, and strategic vision. Others like Cronin (Chapter 2) and Suchit (Chapter 10) pointed to the procedural aspects, such as participatory democracy, rule of law, accountability, transparency, responsiveness, and consensus building. A broader output measurement in terms of human development, rather than traditionally used economic indicators alone, was also suggested by Petrovsky (Chapter 12) to bridge the procedural and output-based assessments. Those who emphasized the output measurements over the procedural measurements pointed out the fragmented civil society outside Northeast Asia as a hindrance to good governance.

Authors who wrote about Northeast Asian countries agreed that good governance prevailed at both domestic and international levels. Those assessing Southeast Asia, however, demonstrated a mixture of optimism and pessimism. Despite the prevailing journalistic and some academic notions of “withering” state power in the era of economic globalization, authors in this volume agreed that states continue to be the principal actors in economic governance, and that they need to transform their roles to cope with the challenges of globalization. However, beyond this point, a disagreement remains between developmental statistes (who support industrial policies, i.e. Chu and Lee—Chapter 5) and neoclassical liberals (who only support limited state

interventions in such areas as management of prudent macroeconomic policy, fiscal policy, and public education, i.e. Greenwood—Chapter 7). There was a clear consensus that corruption has no part in good governance. On the question of whether participatory democracy would reduce the overall level of corruption, most authors either explicitly or implicitly answered in the affirmative, except Thitinan (Chapter 4) who focused his study on monetary policy. His finding that loose monetary policy in Thailand, which plunged the country into economic crisis, was a result of democratization is indeed consistent with the conclusion of other empirical works,<sup>1</sup> which support the idea of central bank independence and legally defined wise men's rules in macroeconomic governance. This is an important footnote to the general thesis that democracy is good for economic growth.

Ravenhill (Chapter 3) addressed capital flows, regionally skewed short- and mid-term effects of globalization, and the governing capacity of states. Ravenhill shows that Southeast Asia as a destination of foreign direct investment has faced an increasing challenge from China. No coordination of FDI policies has taken place between the ASEAN countries and China, and the competition drives these Asian countries toward accelerated overall economic deregulation. The declining relative importance of Japanese investments also contributes to this trend. Ravenhill stops short of discussing broader political-economic implications of this trend, but it is implicit that a free trade panacea in Asia is soon to be achieved, with or without Japan, while Japanese transplants in Asia and their local subcontractors will soon have to compete against American and European investments without the protective shields.

States continue to positively engage in economic globalization, while avoiding the negative impacts. Chu and Lee (Chapter 5) show through their case study of Taiwan that industrial policy aimed at technological upgrading served that very purpose. Deyo (Chapter 8) discussed labor policy options in coping with economic dislocations. However, due to the diverse human and natural resource allocations, infrastructure development, and political systems in Asia, there was no broad agreement among the authors on a single formula to deal with economic globalization. Deyo's menu of elite responses to globalization is indicative of what is happening in various Asian countries, ranging from providing "safety nets" at the social, corporate, and state levels, to slowing down market-oriented reforms.

The role of enhanced citizen participation drew mixed assessments: Deyo (Chapter 8) suggests the possible emergence of "Third Way" governance in Thailand, Buchanan and Nicholls (Chapter 6) see a potential transformation of Taiwanese corporatism into a labor-friendly political economy, whereas Thitinan (Chapter 4)

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<sup>1</sup> Silvia Maxfield, in her *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries* (Princeton: Princeton University Press, 1997), examines Thailand, South Korea, Mexico, and Brazil, and argues that middle-income developing countries send assuring signals to potential foreign investors by making the central banks more independent. These concessions can, however, be withdrawn when the countries' need for foreign investment is less urgent. Arend Lijphart in his *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (New Haven: Yale University Press, 1999) examines 36 countries' political institutions and demonstrates that more independent central banks better control inflation and promote economic growth. For a journalistic observation of the American example, see Bob Woodward, *Maestro: Greenspan's Fed and the American Boom* (New York: Simon and Schuster, 2000).



warns of populist fiscal blowouts and monetary policy failure based on his observation of the Thai case.

Haas (Chapter 11), Zawawi (Chapter 9), Banlaoi (Chapter 16), Wurfel (Chapter 17), and Wirsing (Chapter 13) addressed the possible link between globalization and management of diversity. They agreed that globalization was not the main factor in the success or failure of managing diversity. They also shared the view that a democratic political system supported by a strong civil society was the key to diversity management, but reached no firm conclusion as to which comes first—democracy or civil society—in the case of a transitional polity and society. Several authors noted the state's lack of will to give civil society a chance to flourish. It is commonly asserted that globalization creates skewed income distributions in favor of ever-richer global corporations and a small number of their managers.<sup>2</sup> Without necessarily denying this negative aspect of globalization, some authors also demonstrated that the skewed effects of globalization closely resembled the pre-existing social inequity within each society, indicating that the national elite has so far been in control of the extent of global linkage. Whether further globalization will proceed at the national elite's preferred pace or not is yet to be answered, but suffice to say that further globalization may play a potentially positive role in breaking down existing inequities.

While most authors expressed a generally positive view of the overall growth globalization brings, enabling inter-ethnic redistributive policies, Zawawi (Chapter 9) raised a caution about the new intra-ethnic (Malay) class division in the case of Malaysia. Comparatively, Haas (Chapter 11) pointed out that the most acute internal security problems in Southeast Asia were present in the countries with the least global exposure. It is probably fair to view globalization as a dependent variable of investor confidence, which in turn is a dependent variable of security conditions, rather than an independent variable. Without good governance, whether economic or security, global capital will stay away. A good balance between economic governance and security governance, however, is easier said than done, for policies that maximize profitability and security of investments do not necessarily foster social stability and worker consent. A closer dialogue between economic and security planners is called for.

The degree of politicization and radicalization of Islam in South and Southeast Asia varied from one country to another, as well as the context in which Islamic groups are placed, although authors commonly identified this issue to be an important one. Authors commonly pointed out the existence of socioeconomic grievances behind the politicized and radical Islamic movements. This point, however, seems to remain controversial, as political-economic theories cannot fully explain radical Islamic movements, and there seems to be much more to explore in the domain of social psychology.

Despite slight differences in their definitions of “civil society,” all of the authors focus their analysis on organizations that serve as intermediaries between the people and the state and that are autonomous from the state. Although authors in general

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<sup>2</sup> See, for example, Hans-Peter Martin and Harald Schulmann, *The Global Trap: Globalization and the Assault on Democracy and Prosperity* (New York: Zed Books, 1997).

recognized the positive contribution of civil society organizations to social stability and economic growth, cautions were offered from three perspectives. First, civil society is often absent or underdeveloped and fragmented in Asia. Second, the growth of civil society has proceeded with state endorsement in Asia, and therefore its further growth is contingent upon continued state support. It was pointed out that civil society organizations have been successful in ousting government leaders, but have failed to sustain coherent governing coalitions afterward. Third, not all civil society organizations are inherently “good.” However, authors recognized the mutually enhancing relationship between the growth of civil society and democratization, without presuming the direction of the causal relationship.

In sum, six general conclusions can be collectively drawn from the chapters in this volume:

1. Good governance entails both procedural and outcome measures.
2. Economic globalization poses a new challenge to state management of the national political economy, but states continue to seek ways to mitigate the negative impacts.
3. Regionalism may also substitute for eroded national economic sovereignties. Globalization can also bring about standardized and updated economic practices that help, rather than weaken, state management of the economy.
4. Growth of civil society organizations and their growing transnational networking can provide more careful scrutiny of abusive economic globalization that may hurt national economic growth and/or human development.
5. Globalization is a mixed blessing for governance of diversity, contributing to both the strengthening of parochial group identities and the spread of a secular economy-based global consumer culture.
6. States more than ever face a challenge of minority representation, and in the long term, this will be best done within a democratic framework.

Finally, some words on both the utilities and limits of U.S. foreign policy in promoting good governance in Asia are warranted. Authors expressed cautiously positive assessments of the promotion of economic transparency and somewhat more reserved assessments of the promotion of social and political governance. They supported outside encouragement of civil society growth in Asia, but were skeptical of more forceful imposition of such norms upon Asian countries, given their diverse political, economic, social, and cultural dynamics.

In the economic sphere, globalization is working in a way to standardize rules of economic governance across national borders despite some resistance by vested domestic interests. However, this is not necessarily an “Americanization” of economic management. As several authors pointed out, European corporatism also provides an attractive (from the viewpoint of social stability) alternative, while states

have not abandoned industrial policy to maximize national competitiveness in the globalizing economy.

Economic growth is neither a prerequisite for growth of civil society (as indicated by the Philippine example of an active civil society with a stagnating economy), nor a satisfactory condition for it (as Singapore's "mass society" in a developed economy demonstrates). Asian experiences show quite complex pictures between these two variables. On one hand, economic growth per se has no harmful effects on growth of civil society, and the accompanying growth of a middle class prepares the population for active civic life when the state elites also accept their subordination to the civil society. However, particular growth strategies, like the suppression of labor, seem to distort the process of civil society growth, as was the case in Korea. Although the "willingness" of the state elite still plays a key role in democratization, economic growth seems to be a positive factor in the process of democratization. On the other hand, by the same logic, economic sanctions (for whatever reasons) seem counterproductive to the long-term objective of democratizing Asian countries.

South and Southeast Asian countries have managed to achieve sensitive ethnic consensus through various social and economic policies, ranging from rigorous meritocracy in Singapore and affirmative action policies in Malaysia, to collaboration between the Javanese political-military elite and Chinese businesses in Indonesia. The domestic instability of Indonesia in the wake of the Asian financial crisis is an extreme example of what could happen to other heterogeneous Asian countries as a result of economic shocks and purely economic-minded remedies. On the other hand, if carefully managed, such economic crises also provide reform opportunities for more sustainable economic growth by inviting external interventions, such as by the IMF, World Bank, and other international financial institutions, as therapy for corrupt domestic political economies. Thitinan (Chapter 4) has shown us that manipulation of domestic nationalist sentiments by the Thai political-economic elite can sabotage IMF remedies. Scrutiny of international economic policies by the local civil society, though ideal, is unlikely to be effective any time soon. The United States government should at least seek broader opinions from its own civil society (i.e. area specialists, NGOs) on not only economic policies but also their social and political implications.